

Annual Disclosure and Brochure for Clients Of Kensington Financial

February 6, 2012

Introduction

I, John Micetich, own and operate Kensington Financial at 4241 Caminito Pintoresco, San Diego, Calif. 92108; tel: 619-269-1934; e-mail: kfsdui@gmail.com. With this brochure I tell existing clients and prospective clients how I conduct my business.

This brochure provides information about the qualifications and business practices of John Micetich doing business as Kensington Financial. If you have any questions about the content of this brochure, please contact me at 619 269 1934. The information in this brochure has not been approved or verified by the United States Securities and exchange Commission or by any state securities authority. Additional information about John Micetich/Kensington Financial is also available on the SEC's website at www.adviserinfo.sec.gov.

Below I call myself a registered investment advisor or being "registered". This does not imply a certain level of skill or training.

Material changes

No material changes have taken place since my last update with the SEC in December 2010.

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1. My advisory business and financial planning philosophy.

I have been in business since May 1985. I own 100% of the business. I specialize in investment advisory. I believe that the keys to building wealth are threefold: 1) Obtain objective, unbiased advice from advisors who are fee-only, as opposed to traditional commission-oriented planners and brokers; 2) Use no-load mutual funds and discount brokers to substantially reduce or eliminate commissions; 3) Maintain a diversified portfolio.

I use stocks, bonds, mutual funds, and trust deeds (mortgages), and various bank accounts (e.g., CDs), and money market funds. I tailor my advice to the specific needs of my clients.

As of Dec. 31, 2011, I managed \$75,000,000 of client assets. All of this is non-discretionary.

About 95% of the time I manage my client investment portfolios; this typically includes stocks, bonds, real estate, gold, commodities, mutual funds, trust deeds (mortgages), bank accounts, fixed-rate annuities, money market accounts, limited partnerships, and commodities. I do not advise on art works, collectibles, hedge funds, futures, and options.

About 5% of the time I advise on income taxes, estate planning, college funding, life insurance, custodial accounts, consumer loans, and mortgage refinancing. Advice on taxes, estate planning, and insurance is typically generic in nature. In cases where a client's situation is beyond my expertise in these three areas, I refer them to a CPA, life insurance agent, or attorney.

I can assure clients and prospective clients that I have no conflicts of interest that could be reasonably expected to impair the rendering of unbiased and objective advice. This disclosure is in accordance with CCR Section 260.238 (k) (State of California code).

Furthermore, when there is a conflict between the interests of the investment adviser and the interests of the client, the client is under no obligation to act upon the investment adviser's recommendation. And if the client elects to act on any of the recommendations, the client is under no obligation to effect the transaction through the investment adviser. In all cases I shall put the interests of the client first.

2. Fees and compensation.

I charge fixed fees on a quarterly basis. For clients with assets \$500,000 to \$1,500,000, a typical fee would be \$350 per quarter; for those clients \$1,500,000 to \$2,500,000, a typical fee would be \$450; and those over \$2,500,000 would pay something over \$500. **I do not charge a percentage of assets.** However, my typical fee as a percentage of assets *would be* less than 0.30% of assets under management. In determining a fee for a client, I only take into consideration marketable assets like stocks, bonds, money market funds, bank accounts, mutual funds, etc., but not a residence, investment real estate, a business, insurance cash value, etc. The fee is negotiable and depends mainly on the complexity of a client's situation. Thus the ranges above are just a guide.

My clients pay fees one quarter in advance; there is no obligation on their part or my part to renew the contract beyond three months. I do not offer my services on an hourly-fee basis.

I am not accepting new clients and have no intention of doing so in the future.

Clients investing in mutual funds are, in effect, paying two advisory fees, one to the mutual fund and one to me. I make an effort to minimize such fees by using index funds and other low-cost funds, especially those at but not limited to the Vanguard Group. At the latter, annual fees run 0.08% to 0.45% (est.). Clients may purchase my recommended investments through any broker or mutual fund.

Before 2010, I increased the fee each one-year anniversary of a client's contract based on the national Consumer Price Index (CPI) for

the prior 12 months. Beginning in 2010, I suspended the fee increase as we have had deflation. In 2012, I am again increasing the annual fee by the CPI. I bill each client by e-mail or letter at the expiration of each quarterly contract. The client must pay the fee at the beginning of each quarterly period (e.g., Jan. 15 through April 15). No refunds of a fee are allowed. I receive no commissions or fees from outside institutions or other persons. I am a fee-only advisor. Clients pay 100% of my fees.

In addition, clients may pay fees and commissions to brokers. I use Schwab for most of my securities transactions. Their commissions range from \$8.95 to \$19.95 for stock trades, \$2 to \$3 for bond trades, and \$29 to \$49.95 for mutual fund trades; all of these depend on the amount of the trade and the amount of assets at Schwab. Although I have a limited power of attorney to place trades at TD Ameritrade, clients do this on their own. TD's commissions are similar to Schwab's.

Trade aggregation practices. This is a practice where I might buy a large block of stock and then apportion the shares among several clients. When these allocations differ for each client and I have discretion in allocating to each client, it poses a potential conflict of interest. I do not engage in such practice.

I often recommend Vanguard mutual funds; clients place these trades on their own for which they pay zero in commissions.

Clients may pay commissions to Schwab or others I recommend that may exceed what they can obtain at other brokers. Also, **lower fees for comparable financial planning services may be available from other financial planning firms and sources.**

In reference to annual custodial fees for client IRA and Roth IRA accounts, Vanguard charges \$0 a year for mutual funds exceeding \$10,000 and \$20 for mutual funds less than \$10,000. Schwab charges nothing.

3. Performance based fees.

I do not charge performance fees, i.e., a percentage of capital gains or dividends.

Side-by-side management is a practice where an advisor uses a different fee structure for similar client portfolios (e.g., fee-only vs. performance fee). I do not do this.

4. Types of clients. My clients are all individuals.

5. Methods of analysis, investment strategies, and risk of loss. I follow macroeconomic trends, political and international events, and social and demographic trends, primarily through the Wall Street Journal, the New York Times, Morningstar, AAI Journal, the Financial Planning Magazine, and information obtained from mutual fund websites, especially those of Pacific Investment Management Company (PIMCO), Charles Schwab, and Vanguard. My primary investment criterion is asset allocation (or investment policy), rather than market timing or security selection. This is because academic studies have shown that asset allocation explains about 90% of a portfolio's variance in the long run. I do not believe in market timing, that is, the frequent buying and selling of assets like stocks, trying to catch a market trough or peak. I typically do one to three trades per year for each client. I am a long-term investor, not a short-term trader. For stocks, I believe that fundamental analysis is somewhat useful and that technical analysis is not, and that the stock market is highly efficient. Thus it is difficult, if not impossible, to beat the market on a risk-adjusted basis. Therefore, I make heavy use of Vanguard index funds.

I believe that the U.S. economy is in a phase that is now called The New Normal (borrowed phrase from PIMCO). In my view, this means that we will probably see lower GDP growth, lower increases in corporate earnings, higher unemployment, and eventually higher interest rates. Thus I think that stock returns will be lower in the future, perhaps 6-7% a year, versus the historical 10-11%. This translates into a more conservative asset allocation. In prior years, I advocated 50-65% in stocks and 35% to 50% in bonds and cash. Now a typical portfolio is about the reverse at 30% to 40% in stocks (and other risky assets) and 60% to 70% in bonds, cash, and other low-risk assets. A few clients are as low as 20% in stocks and other risky assets, a few are still at 60%, but the vast majority follows my advice of 30-40% stocks and 60-70% bonds/cash. In all cases, the client makes the final decision. Overall, I believe my strategy is defensive, albeit with a small allocation to gold and emerging markets.

6. Disciplinary information

I have never been disciplined by any self-regulatory organization or government organization.

7. Other financial industry activities and affiliations

I have no other activities in the financial planning industry.

8. Code of ethics, participation or interest in client transactions and personal trading

See my Code of Ethics in the Appendix below. The Code is available to existing or prospective clients upon request.

9. Brokerage practices

a. Research and soft dollar arrangements

I do not pay for any research nor do I receive any research or soft-dollar benefits from any organization.

b. Brokerage for client referrals

I do not refer clients to any broker to get client referrals.

c. Directed brokerage

I do not direct clients to any broker. Client is always free to use any broker or financial organization. And I do not aggregate client orders.

10. Review of accounts

I alone review each client account in January and July of each year and send a written report to clients either by e-mail or by mail. If, however, I think buying or selling a security is warranted, I contact the client immediately with a written recommendation.

11. Client referrals and other compensation

I do not pay referral fees for new business nor receive nor receive any benefit from a client or non-client for a referral to a prospective client.

12. Custody

I do not take custody of client assets.

13. Investment discretion

I do not manage discretionary accounts, that is, I must ask each client for permission before placing a trade. In certain instances I have a limited power of attorney to place trades for clients at Charles Schwab and Company and TD Ameritrade. This power is strictly limited to placing trades, not to withdrawing assets or making any other changes to the client account.

14. Voting client securities

I do not vote on client security matters, nor do I have this authority.

15. Financial information.

I do not require or solicit prepayment of more than \$500 in fees per client, six months or more in advance.

There are no financial conditions that are reasonably likely to impair my ability to meet contractual commitments to clients.

I have not been the subject of a bankruptcy petition at any time during the past ten years; nor have I ever been the subject of a lawsuit; nor held liable in an arbitration proceeding; nor held liable by any self-regulatory organization or any other organization.

16. Biographical data on John Micetich

From 1975 to 1980, I was a loan officer and branch manager for Wells Fargo Bank in San Diego, Calif. From 1981-1985 I was a financial planner for Reilly Investment Companies in San Diego, Calif., and I was also the general manager of our Saudi Arabian partner, Abelco, in Dhahran, Saudi Arabia, from 1983 to 1985. After leaving Reilly Investment Company in 1985, I founded Kensington Financial, a sole proprietorship. From my business's inception, I have been a fee-only financial planner. I have clients in the U.S. and several other countries.

Born in 1947, I have a B.S. (1969) in psychology from the University of Illinois and an MBA (1974) from San Diego State University. I have been a Certified Financial Planner since 1982.

Since 1989 I have been a part-time college instructor. I taught two to three courses a year in investments and financial planning at the University of California San Diego (Extension) from 1989 through 2005. Since 2002, each spring semester I have taught one to three courses at the University of Illinois in personal financial planning. From 2002 through 2010, I taught one or two courses for eight weeks *pro bono*. Beginning in 2009, I was also hired by two colleges within the university to do curriculum development in personal financial planning and to teach two courses. These are salaried positions. During the periods Jan. 15-May 15 (est.) of 2009 and 2010 and for the period Jan.

18-May 15, 2011, I will have earned about \$100,000 at the university. My typical teaching load is 200-250 students, mostly juniors and seniors, in two courses. I do several hours of preparation each week for these classes, and I attend lectures given by other professors and instructors. As a result, I believe that this university experience for four months each year makes me a better-informed financial planner. My teaching takes about one-third of my time over four months each year. My duties at Kensington Financial take about one-half of my time throughout the year.

Appendix

Code of Ethics for Kensington Financial

Introduction

I, John Micetich, am the Chief Compliance Officer (CCO), doing business as Kensington Financial (KF below). I am the person responsible for training and education regarding the Code. I have no employees and therefore no supervised persons and there is no board of directors. Any discussion below concerning a supervised person refers to John Micetich. It is my intention neither to have any supervised persons nor to change the legal status of Kensington Financial. If this changes, then this code shall be amended promptly. In the code below, KF and John Micetich are effectively the same.

Part 1. General principles

KF firmly believes in fee-only planning, as opposed to generating commissions from the sale of securities. Receiving commissions poses a conflict of interest: For whom is the advisor working, himself or the client? As a fee-only advisor, KF has no financial axe to grind. KF also believes clients should have a discount broker to minimize commissions. From time to time, KF may recommend a specific firm, but in all cases it is the client's choice. KF has an arm's length relationship with all outside firms.

The most important principle of this code is that KF has a fiduciary duty to clients. The interests of clients must be placed ahead of KF's interests. Any conflicts of interest must be resolved in the client's favor. KF shall not take any inappropriate advantage of a client. All information given to KF by clients must be held in confidence. In the decision making process, independence and objectivity on KF's part are paramount. KF promises to uphold integrity, honesty, and professionalism when acting on behalf of clients.

Part 2. Scope of the code

The only person covered by the code is John Micetich of KF. In the event that temporary workers, consultants, or independent contractors are hired, then this code shall be amended promptly. Additionally, no family member of KF is involved in KF's activities and is therefore not covered by this code.

Securities covered are stocks (including foreign and ADRs), bonds (including Treasuries), unit investment trusts, mutual funds (including closed-end, open-end, and foreign), and limited partnerships. Hedge funds, futures, and options are not used and therefore not covered.

Part 3. Standards of Business Conduct

KF shall comply with applicable federal securities laws. In connection with the purchase or sale of a security held or to be acquired by a client, KF shall not defraud or mislead a client, nor engage in any act that would operate as a fraud or deceit, nor engage in any manipulative practice, including security price manipulation, upon a client. KF shall also comply with all federal regulations concerning client privacy and confidentiality matters and anti-money laundering regulations.

As to conflicts of interest, KF once again states that any conflict of interest must be resolved in the client's favor. KF shall not favor one client over another client (e.g., larger accounts over smaller accounts) that would involve a breach of fiduciary responsibility.

KF shall not compete with a client for the purchase or sale of securities. When recommending securities to clients, KF shall disclose to clients any material beneficial ownership or business or personal relationships. The exception shall be minimal positions that could not possibly affect a client's security position. Example: KF may own \$50,000 of a Vanguard

mutual fund; this could not affect client's purchase or sale of such security.

KF may recommend a specific brokerage firm. This shall be based on KF's judgment that using such firm is in the best interest of the client. It shall not be based on any compensation received by KF. In fact, KF receives no compensation from any securities firm, brokerage firm, mutual fund, or any outside firm, including vendors and suppliers.

Best execution.

For most clients, I have a limited power of attorney to place trades with Charles Schwab and TD Ameritrade. These are non-discretionary accounts. I must ask permission before trading. The commissions charged by these brokers are not necessarily the lowest, and it is possible that the prices at which trades are executed are not necessarily the best prices. There will always be some other broker charging less in commissions, and there may be other brokers who are able to get a better trade execution. I choose not to do business with these other brokers, as Schwab occasionally provides me with valuable advice (not a soft-dollar arrangement). I believe that Clients have indirectly benefited from such advice. However, I also believe that the commissions paid and the trade executions are excellent at Schwab and TD Ameritrade. *In my opinion, they are certainly better than what could be obtained at the "full-service" brokers like Merrill Lynch and Morgan Stanley based on published rates.* To the best of my knowledge, none of my recommended brokers has been involved in any regulatory action regarding excessive commissions or spreads. Clients are always free to transfer their securities to any other broker. I receive no kickbacks, fees, or any compensation whatever from the brokers I have recommended. My personal securities are all at Schwab, The Loan Company, Vanguard, and Fidelity. The above is disclosed to all clients in my annual offer of form ADV, part II, which has now been replaced by this narrative brochure.

KF shall not engage in any insider trading, nor shall KF communicate material nonpublic information to others in violation of the law. This

“material nonpublic information” relates to issuers as well as to securities held by a client or KF.

KF shall comply with all regulations concerning personal securities transactions. KF shall keep records of all personal security transactions.

Blackout periods. KF shall not execute any transaction during which a client has a pending buy or sell order in the same security until that order is executed or withdrawn. It is client’s responsibility to inform KF of such a period.

KF may engage in short-term trading for its own account as well as margin trading and short sales. Supervised personnel would be prohibited from doing any of these; short-term trading is defined as 30 days or less. (Last point is currently moot, as KF has no supervised persons.)

KF shall not accept any inappropriate gifts from favors, entertainment, special accommodations, or other things of value that could be viewed at influencing decision-making or making a client feel beholden to KF. Nor shall KF provide such gifts, favors, etc. to clients unless they are considered to be of *de minimis* value. A reasonable standard will be used, thus, accepting or providing a typical lunch or dinner gift would be acceptable. No cash is ever allowed to be exchanged between client and KF unless it is for the payment of KF’s normal fee.

KF shall not pay any referral fees to clients.

Confidentiality (see below).

KF reserves the right to serve on a board of directors for a publically-held company. Such fact will be disclosed to client if such action has any bearing on client’s portfolio.

Part 4. Compliance procedures

Personal Securities transactions

KF shall keep records of all personal securities transactions and record them no later than 30 days after the end of each quarter; such reports must include date, title and exchange ticker symbol, or CUSIP number, interest rate and maturity date if applicable, number of shares/units, dollar amount, price, nature of transaction (sale/purchase), the bank, broker, dealer, or mutual fund through which the transaction was

effected, and the date the report is submitted. KF shall maintain all duplicate copies of security transactions and copies of periodic statements for all securities accounts.

Confidentiality

KF states that all information from clients is held in strict confidence, including the client's identity, unless the client consents. Under the Graham-Leach-Bliley Act of 1999, KF is required to tell client if it collects and shares personal information about client. KF does not nor has any affiliates that do. Client files are held in a secure area of my home/office. There may be times when a client authorizes KF to discuss information with his attorney, tax advisor, etc. KF only shares such information with client's express permission.

Annual Certification

On an annual basis, KF shall review and certify Compliance with the code.

Part 5. Record keeping

KF shall maintain the following records in a readily accessible place:

- * Copy of code in effect during the past five years.
- * A record of any violation of the code and any action taken as a result for the past five years from the date end of the fiscal year in which the violation occurred.
- * A record of all written acknowledgments of receipt of the code and amendments for each person who is currently or within the past five years was, a supervised person.
- * Holdings and transaction reports pursuant to the code, including brokerage confirmation and account statements made in lieu of these reports.
- * A record of any decision and supporting reasons for approving the acquisitions of securities by access persons in limited offerings for at least five years after the end of the fiscal year in which approval was granted.

Part 6: Form ADV disclosure

This code is also part of KF's form ADV, part II. KF shall provide any client or a prospective client a copy of the code upon request.

Part 7. Administrative and enforcement of the code

I, John Micetich, the CCO, am the person responsible for training and education regarding the code. I have no employees and therefore no supervised persons. It is the CCO's intention not to have any supervised persons. If this changes, then this Code shall be amended promptly.

The CCO shall review the code annually as to its adequacy and effectiveness.

The CCO shall be responsible for reporting any violations to the SEC such as noncompliance with applicable laws, fraud or illegal acts, material misstatements in regulatory filings, internal books and records of KF, clients' records or reports, any activity deemed to be harmful to clients, and deviations from required controls and procedures that safeguard clients and KF.

I adopt and amend this brochure on this date, February 6, 2012, at San Diego, California.

Signed,

John Micetich
Chief Compliance Officer