

Disclosure Brochure

March 31, 2012



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This brochure provides information about the qualifications and business practices of Fiduciary Financial Services of the Southwest. If you have any questions about the contents of this brochure, please contact us at (972) 934-9070 or info@ffss.net.

The information in this brochure has not been approved by the United States Securities and Exchange Commission or any state securities authority. Additional information about us also is available on the SEC's website at

www.adviserinfo.sec.gov.

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Under federal and state law, we are a fiduciary and must make full disclosure to you of all material facts relating to our relationship with you. We must seek to avoid conflicts of interest with you. At a minimum, we must make full disclosure of all material conflicts of interest between the two of us that could affect our relationship.

We must provide you with sufficiently specific facts so that you are able to understand our conflicts of interest and business practices and can give informed consent to such conflicts or practices or reject them. We provide you with this disclosure brochure to help you make an informed decision about us.

Advisory Business

In this section, we describe who we are, how long we have been in business, who our principal owners are, and what services we provide.

We are a fee-only investment advisory firm that was established in 1990. What this means is that we receive compensation only from you. We are an employee-owned company and our principal owner is Paul H. Welch. As of December 31, 2011, we manage \$285,580,121 on a discretionary basis and \$10,328,663 on a non-discretionary basis. We provide the following services.

Investment Management

We select specific investments for you based on your needs. We strive to maintain a fully-invested, diversified portfolio of securities based on your goals, risk tolerance, and investment objectives. We will assist you in

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selecting an investment objective based on your articulated needs. You may impose restrictions on investing in certain securities or types of securities.

Retirement Planning

We review your retirement package to help you determine your retirement income goals and the actions and decisions necessary to achieve those goals. We can assist in forecasting your income, analyzing your income taxes to help you minimize them, and calculating your minimum required distribution amount.

Estate Planning

We review your existing estate plan and make recommendations we deem appropriate. We can set up powers of attorney to cover your healthcare and financial decisions. We can provide assistance to your executor in the probate process as well as in the estate's accounting process.

Tax Return Preparation

We prepare trust tax returns as requested by clients and remind you to pay your estimated tax.

Participant Loan Administration

We prepare loan documents for pension and profit sharing plans. We process principal and interest payments, maintain records of payments and balances, and follow up on delinquencies.

Fees and Compensation

In this section, we describe how we are compensated for our services, how we collect our fees, and what other fees and expenses you may pay.

We charge 1% annually for our investment management service. We and our employees do not receive compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds. We recommend and select investment products for you based on your needs and not on any financial incentive related to the product.

The management fee is negotiable. Some factors we consider when negotiating the fee amount are: the length of the relationship, the size of the account, the extent of personal servicing, and whether an account is directly or indirectly affiliated with a client. As a result, you may pay a different fee from another client for the same services from us.

The management fee is determined quarterly by the average market value of assets at the end of each month within the previous quarter. Unless negotiated otherwise, we include assets resulting from trades that you direct as well as from any outstanding participant loans in the fee calculation.

Fees are charged quarterly in advance. You may terminate your relationship with us by notifying us in writing. We consider the relationship to be terminated on the 30th day after the date of receipt of your written notice. In the event of termination, we will prorate and either refund to you any unearned fees within 30 days or charge you for earned fees not yet collected.

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Our preferred method of collection is to deduct fees. However, you may select to pay the management fee by a check instead. Each quarter, we will notify you and your custodian of the amount of the fee due and payable to us. The custodian will deduct the fee from your account. If you have more than one account, the custodian will deduct the fee from the account you have designated. The custodian does not validate or check our fee calculation. If you select to pay by a check, we will send you an invoice for our services and you pay us within 30 days of the due date. The due date is 7 days after the invoice is mailed to you.

The management fee payable to us does not include all the fees you will pay when we purchase or sell securities for your account. The following list of fees or expenses are what you pay directly to third parties, whether a security is being purchased, sold, or held in your account under our management. We do not receive any of these fees charged to you. They are paid to your broker, custodian, or the mutual fund or other investment you hold. Depending on what you have selected, you may incur the following expenses in connection with our advisory services:

- SEC fee;
- Wire fee;
- Margin fee;
- Custody fee;
- Exchange fee;
- Check order fee;
- Returned check fee;
- Stop payment fee;
- Account transfer fee;

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- Account termination fee;
- Foreign security fees;
- Account termination fee;
- Management fees for mutual funds and exchange traded funds (ETFs);
- Mutual fund sales charges or service fees; or
- Brokerage and transaction costs.

For more information about the brokerage and transaction costs, please refer to the brokerage practices section.

We charge a \$150 set up fee to prepare loan documents for our participant loan administration service. This fee is collected directly from the participant at the time the loan papers are signed. The fees related to retirement planning, estate planning, and tax return preparation services are negotiated with each client.

Performance-Based Fees and Side-By-Side Management

We describe in this section any additional compensation we may charge based on the performance of your account and how we make investment decisions for accounts that we charge a performance-based fee and for accounts that we do not charge a performance-based fee.

We and our employees do not charge performance-based fees – that is, compensation based on a percentage of total assets managed that is paid to us if we deliver returns above a specified benchmark.

Types of Clients

We describe the types of clients we provide investment advice to and any requirements for opening or maintaining an account [here](#).

We generally provide advice to individuals, corporations, government entities, trusts, estates, and pension and profit sharing plans. We do not require you to have a minimum account size to provide services to you.

Methods of Analysis, Investment Strategies and Risk of Loss

We describe in this section the analysis methods and investment strategies we use in managing your assets.

Our investment strategy is based on your individual goals, risk tolerance, and cash flow needs. We use a top-down approach in investing. We look at the “big picture” in the economy and financial world and then break those components down into finer details. After looking at the big picture conditions around the world, we analyze the different sectors within the economy in order to select those that are forecasted to outperform the market. We then analyze stocks of specific companies and those that are believed to be successful are chosen as investments.

We analyze major factors that will influence the capital market and the companies in it. The main factors will be the overall economy, monetary and fiscal policy, demographic changes, inflation, industrial sector trends, and interest rates.

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We use fundamental analysis. We review a company's annual reports, filings with the SEC, press releases in conjunction with research material prepared by others to analyze a stock's real worth. If our analysis shows that the stock is worth more than its price, then we would consider buying the stock.

We sell securities if there is a material deficiency in reported earnings versus our expectations, which is not considered a one-time event, or if there is a material change in the company's operations or business outlook. Among other determinants when selling a security, we consider price movement relative to the purchase price.

We also use income investing, which aims to pick companies that provide a steady stream of income. We strive to find good companies with sustainable high dividend yields, such as publicly traded partnerships, real estate investment trusts, convertible preferreds, and royalty trusts. We look at a company's past dividend policy to determine whether the company can continue with its dividends.

Publicly traded partnerships, also known as master limited partnerships, are companies that own and operate pipelines, primarily for natural gas, oil and refined products. Real estate investment trusts are companies that own and operate income-producing properties such as shopping centers, medical offices, long term care facilities and apartments. Convertible preferreds, which are convertible into the issuer's underlying common stock, have a high dividend payout and the potential for capital gains should the underlying common shares appreciate. Royalty trusts are entities established as income-producing vehicles to purchase profit interests in mostly oil and gas properties.

We call this group of securities “enhanced income securities.” We believe that they produce more income and total return than bonds or certificates of deposit. However, the tax treatment for some in the group is more complex than the treatment of dividends of common shares. Most accounts have some allocation of enhanced income securities because of the cash flow requirements of the account.

Investing in securities involves risk of loss that you should be prepared to bear. All investments in securities include a risk of loss of your principal (invested amount) and any profits that have not been realized (securities not sold to “lock in” the profit). While the enhanced income securities are attractive because of their high dividend yields, they are still securities and the risk of loss of your invested amount applies. There is also the risk that the company will stop paying the dividend.

Performance of any investment is not guaranteed. As a result, there is a risk of loss of the assets we manage that may be out of our control. We will do our very best in the management of your assets. We cannot guarantee any level of performance or that you will not experience a loss of your account assets.

Disciplinary Information

We discuss here any legal, financial, or disciplinary events about us that are material to your evaluation of our advisory business or the integrity of our management.

We do not have any legal, financial, or disciplinary events to report to you.

Other Financial Industry Activities and Affiliations

Here, we describe our registrations to conduct business in any other capacity besides as an investment adviser and any relationship or arrangement that is material to our advisory business or to you that we or our employees have with a related person.

We are not registered to conduct business in any other capacity besides as an investment adviser. We prepare income tax returns for some of our clients and charge a negotiated fee with each client.

Our principal owner is a licensed attorney and provides legal services to some of our clients. The legal service is incidental to the service that is provided to that client. Our president, Sondra J. Wilson, has a CPA practice in which she currently provides tax services to some of our clients. This is done at the request of the client and she is compensated directly by the client.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

We discuss our code of ethics briefly here and how we address conflicts that arise when we trade in our accounts or when our employees trade in their accounts.

We have adopted a code of ethics that governs a number of potential conflicts of interest we encounter when providing services to you. This code is designed to ensure we meet our fiduciary obligation to you, which is to place your interests ahead of ours. Our code is distributed to each employee at the time of hire and thereafter when there are changes.

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Our code includes the following:

- Prohibitions on insider trading which is using information not known to the public to make trade decisions;
- Prohibitions on accepting gifts and entertainment that exceed our policy standards;
- Reporting of gifts and business entertainment;
- Pre-clearance procedures of employee and firm transactions;
- Reporting of all personal securities transactions; and
- Certification of compliance with the code.

We will provide a complete copy of our code to you upon written request.

Our code does not prohibit us or our employees from trading in our accounts. As an investment adviser, we follow our own advice. We may purchase or sell the same or similar securities (or securities that are suitable for an employee or our account but not suitable for you) at the time that we place transactions for your account and the accounts of our other clients.

Trading in our own account(s) presents a conflict of interest for us and our employees to the extent that we can use knowledge about pending or currently considered securities transactions for you to profit personally. This is done by placing a trade in our account before we trade in yours and thus receive a better price than you.

To prevent this from happening, we block our trades with yours and every account receives an average price. We have pre-clearance procedures for when we cannot block our or our employees' trades with those of yours. This

procedure is to ensure that we offer the investment opportunity to you before we or our employees may act on them.

Brokerage Practices

We describe how we select brokers for your transactions and how we determine the reasonableness of their compensation here. We disclose the conflicts of interest arising from our receipt of soft dollar benefits. We discuss whether we receive client referrals from a broker or third party, whether we require you to direct us to execute transactions through a specific broker, and if we aggregate transactions.

Selecting/Recommending Brokers for Client Transactions

We recommend certain brokers to maintain custody of your assets and to execute trades for your account. Some factors we have considered in choosing to recommend them are:

- Their proven integrity and financial responsibility;
- Their ability to provide research and execution services;
- The simplicity of the trade allocation process;
- Their ability to provide services to accommodate special transaction needs;
- Their ability to offer on-line access for clients; and
- The competitiveness of the commission rates they charge.

When you select a broker, we will execute all trades for that account through the selected broker. While we recommend certain brokers, we do not require

you to use any of them. However, if you select your own broker, we recommend that you place your assets in a custodial relationship with a broker that has demonstrated it has an efficient and effective custodial reporting service for its clients. Your broker must also provide us access to download your transactions electronically and to perform trades for no additional charge.

Research and Other Soft Dollar Benefits

The term “soft dollars” refers to arrangements under which an investment adviser directs client transactions to a broker and, in exchange, obtains research products or services in addition to brokerage services from the broker. It is a means of paying a broker for its services through commission revenue, as opposed to through normal direct payments.

Generally, any trade involving a commission is a soft dollar transaction since the fee covers execution, clearance, and settlement costs. In addition, the commission covers in-house services such as broker-produced research (both proprietary and third party). In-house services for commissions are considered “bundled.” It is common practice for the brokers to bundle their services.

The brokers we recommend bundle their services. These services provide appropriate assistance to us in our investment decision making process. We receive access to their institutional trading and operations services, which are typically not available to retail investors. These services include research, brokerage, custody, access to mutual funds and other investments.

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Research services include:

- Furnishing advice as to the value of securities, the advisability of investing in, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities;
- Analyses and reports concerning such matters as companies, industries, economic trends and political factors; and
- Services incidental to executing securities trades, including clearance, settlement, and custody.

We also receive other products and services that benefit us but may not benefit you. Some of these products and services assist us in managing and administering your accounts. These include technology that:

- Provides access to your account data (such as trade confirmations and account statements);
- Facilitates trade execution (and allocation of blocked orders for multiple client accounts);
- Provides pricing service and other market data;
- Facilitates payment of our fees from your accounts; and
- Assists us with client reporting (the ability to download data files into a portfolio management system).

We receive services intended to help us manage and further develop our business. These services, offered at preferred prices, include publications, information technology, regulatory compliance, and marketing.

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When we use client commissions to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for the research, products, or services. We may have an incentive to recommend a broker based on our interest in receiving the research or other products or services, rather than on your interest in receiving the most favorable execution.

Because the brokers that we recommend bundle their services, you pay commissions (or markups or markdowns) higher than those charged by other brokers who offer pure execution services. Because we use the soft dollar benefits we receive to service any and all of our clients' accounts, we do not allocate soft dollar benefits to accounts proportionately to the soft dollar credits they generate.

Brokerage for Client Referrals

We do not receive any client referrals from the brokers we recommend to you.

Directed Brokerage

We do not require that you direct us to execute transactions through a specific broker. You can direct us to use a specific broker to execute your transactions. However, if you direct us to use a specific broker, you may receive a less favorable price because we would not be able to block your order with those of our other clients. We will complete other transactions before completing directed brokerage transactions so as to not adversely impact those other transactions.

Trade Aggregation

For ease of execution and in the interest of obtaining better pricing, we will aggregate client orders and place them as one block with their respective brokers. In the event that these block transactions are executed at different prices on the same day, you will receive an average price per share at each broker where transactions are placed for your account(s). To the extent that the trade is executed in pieces across more than one day, we will assign shares to accounts on a random basis. However, we will ensure that shares are assigned to accounts to remove any odd number of shares received and to accounts in which the entire requested position can be filled to prevent multiple commission charges.

A broker may have a policy to not charge a commission when the number of shares traded is small. We have no control over any broker's policy to charge a commission that is less than the negotiated rate or to not charge a commission at all.

Review of Accounts

We discuss who reviews your accounts and how often they are reviewed in this section. We also describe the reports that we provide to you.

Your portfolio manager reviews your accounts on a continuous basis. They conduct major portfolio reviews at least annually to gauge the appropriateness of the securities held in relation to your needs and objectives, current investment strategies, and asset allocation. Additionally we

recommend periodic meetings with you to review your accounts, objectives and needs.

We provide you with the following written reports:

- A monthly report showing units, cost, market value, projected annual income and current yield as well as transactions which occurred in that month;
- A quarterly performance report with year-to-date performance and summary of additions, withdrawals, income and management fees deducted; and
- A quarterly information invoice showing the asset base on which our fee is calculated, the fee calculation, and the investment management fee due.

Client Referrals and Other Compensation

We describe any solicitation arrangements we have and the compensation related to the arrangement in this section.

We employ two business development representatives who refer clients to us. They do not manage or make investment decisions for any client accounts. They receive a percentage of the fee we charge the accounts. The referred clients' fees are the same as those fees paid to us by other clients who were not solicited or referred by the business development representatives. The business development representatives provide referred clients with a compensation disclosure document.

Custody

We explain here whether we have custody of your funds and securities and what you should do if we have custody.

We are deemed to have custody of your assets only because we have the ability to deduct our investment management fees from your accounts. You will receive account statements directly from your custodian at least quarterly. You should carefully review the account statements you receive from your custodian and compare them against the ones you receive from us.

Comparing statements will allow you to determine whether account transactions, including deductions to pay our management fees, are accurate. There may be instances in which the statements may differ. The differences are a result of the following:

- Us not reflecting accrued interest;
- Us using a third party's price for a security;
- The rounding policy pursuant to our portfolio management system;
and
- The reporting of market value by the custodian on a date other than month end.

For tax purposes, the custodial account statement is the official record because the custodian is required to provide information to the Internal Revenue Service. For calculation of management fees, our statement is the official record.

Investment Discretion

This section describes under what authority we manage your account and whether you may place any limitations on this authority.

Unless instructed otherwise, we manage your portfolio using a limited power of attorney. You grant us this authority when you sign our management agreement.

The limited power of attorney grants us the right to place trades in your account without obtaining prior permission from you. We determine which securities to buy or sell, the amount of the securities to buy or sell, and the timing of the trades. However, on occasion you may direct us to buy or sell a security. You may also place restrictions on securities you do not want bought or sold in your accounts.

Voting Client Securities

This section discusses whether we will accept authority to vote your securities, our voting policies, how we address conflicts of interest that may arise when we vote your securities, how you can direct us to vote in a particular solicitation, and how you may obtain information about how we voted your securities.

In general, we do not accept authority to vote your securities. You receive your proxies or other solicitations directly from your custodian. If you have questions about a particular solicitation, you can call or write us about them. We will provide our opinion if you wish to solicit our advice. However, we will not vote the proxy on your behalf.

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An exception applies to ERISA accounts where we have a fiduciary responsibility to vote their proxies unless the plan documents state that the plan trustees will vote. For these accounts, we will vote their proxies. If in our opinion there is no valid business reason to object, we will vote according to the recommendations of the issuer.

For issues which we believe that voting as recommended by the issuer may not be appropriate, our Investment Strategy Committee will review the proxy statement along with newspaper articles, trade journals, or other information reasonably available to the public to make a decision in the plan's best interest.

We do not anticipate any conflicts of interest between the plan and us. But in the instance where such conflict of interest may arise, we will disclose it to the plan trustees in writing and solicit their instructions as to how to vote the proxy.

You may request a copy of our proxy policy and plan trustees may request a copy of the proxy votes made on the plan's behalf by submitting a written request addressed to FFSS Proxy Voting. We will respond within 10 business days of all written requests.

Financial Information

We describe in this section certain financial information about us when they are material to you. We discuss any financial condition reasonably likely to impair our ability to meet contractual commitments to you and will provide

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you with a copy of our audited balance sheet if we require you to prepay your fees six months or more in advance.

We have no financial conditions to report to you and we do not require prepayment of fees six months or more in advance.