

**Item 1 – Cover Page**

**PDS Planning, Inc.**

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This brochure provides information about the qualifications and business practices of PDS Planning, Inc. If you have any questions about the contents of this brochure, please contact us at the above telephone and/or address. 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 PDS Planning, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

Not applicable.

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## **Item 4 – Advisory Business**

### **Background & Ownership**

PDS Planning, Inc. is a corporation founded in 1985 in the State of Ohio and was registered as an Investment Adviser Firm with the Securities & Exchange Commission in 1988. Owners and Principals of PDS Planning are Robert A. Cochran, Rita M. Itsell, Jeffrey C. Gilbert, and Robert D. Hamilton.

### **Services Offered**

PDS offers fee-only financial planning and investment advisory services. During initial meetings with the client, information on the client's financial goals and objectives, investment philosophy, and risk tolerance are identified. It is then determined whether services provided to the client will be Investment Advisory, Financial Planning, or a combination of the two. At that time, a contract is prepared and signed, that sets forth the terms and conditions of the engagement and describing the scope of the services to be provided.

Once a contract has been executed, it remains the client's responsibility to promptly notify PDS Planning if there is any change in his/her financial situation or investment objectives.

#### **➤ Investment Advisory Services**

PDS Planning offers Investment Advisory (Investment Management) services to clients. PDS may prepare an Investment Policy Statement (IPS) for the client, which will serve as a guide for future investment decisions. The IPS, when applicable, will outline goals and risk tolerances, as well as general asset allocation targets for the client's managed portfolio. PDS, in consultation with the client, will design and monitor a client's managed investment portfolio. Clients may impose restrictions on investing in certain securities or types of securities.

PDS offers the services of *Schwab Institutional*. Managed advisory accounts are non-commission, fee-only, where mutual funds, exchange-traded-funds, stocks, bonds, CDs, and other individual securities may be held and managed.

As of December 31, 2011, total assets managed by PDS are:

- Discretionary: \$284,767,000
- Non-Discretionary: \$263,321,000
- Total: \$548,078,000

➤ **Financial Planning Services**

PDS Planning provides clients with financial planning reports and/or recommendations after analysis of the client's assets, liabilities, and income, and taking into account the client's goals and objectives in the following possible areas:

- Personal – Family records, budgeting, personal liability, estate information, and financial goals.
- Tax Review – Income tax review and planning for current and future years.
- Death & Disability – Cash needs at death, income needs of surviving dependents, estate planning, and disability analysis.
- Education Funding
- Retirement – Review of sources of retirement income, possible dates of retirement, and the effect that changes in inflation and rates of return might have on realizing retirement goals.
- Investment – General investment planning, *not including Investment Advisory Services*.
- Business – When applicable, current business structure, tax considerations, retirement issues, and succession issues for closely-held businesses.

The report may be written, electronic, and/or oral in nature, and it may include recommendations regarding the aforementioned areas of importance to the client.

If requested by the client, PDS Planning may recommend the services of other professionals for implementation purposes. The client is under no obligation to engage the services of any such recommended professional (for example: attorneys, accountants, and insurance agents). The client retains absolute discretion over all such

implementation decisions and is free to accept or reject any recommendation from PDS Planning.

Neither PDS Planning nor any of its representatives serve as an attorney or Certified Public Accountant, and no portion of PDS Planning's services should be construed as same.

### **Item 5 – Fees and Compensation**

Clients of PDS have the option of paying for services in two ways: an annual retainer financial planning fee that may also include investment advisory services, or a fee based on a percentage of assets managed for just investment advisory services.

The retainer fee is based on a combination of the client's annual income, investment assets, and net worth. The fee is established at the beginning of the relationship, based upon the scope of the work to be performed and the nature of ongoing consulting desired and may be updated or revised annually. Details of how this fee is calculated are available by request to PDS Planning, Inc. This retainer fee may include both Financial Planning and Investment Advisory (Investment Management) services.

PDS also offers stand-alone Investment Advisory Services with fees based on a percentage of assets under management, according to the following schedule (which is negotiable):

- 1.00% per year of the first \$500,000 of assets under management
- 0.75% per year of the next \$250,000
- 0.50% per year of the next \$500,000
- 0.25% on all amounts above \$1.25 million

These *investment advisory fees are billed quarterly, in advance*, and are based on the value of the client's managed assets at the end of the previous quarter. Because PDS Planning does not have custody of client assets, the client may authorize the custodian, in writing, to debit the management fees from the account. PDS sends a detailed management fee invoice to the client and a summary of the billing statement to the custodian. The management fee invoice shows the value of the assets, how the fee is calculated, and the fee amount. The monthly statement the client receives from the custodian of the assets shows the fee debited and paid to PDS Planning. Clients may

also request to be billed directly. Prices for most assets are available through electronic download on a daily basis. However, daily prices may not be available for certain assets. In such cases, the most recent valuation may be used in calculating the value of assets for billing purposes.

If the client terminates the contract with PDS Planning, all fees pre-paid as of the date of termination will be refunded to the client.

### **Other Fees and Expenses Paid to Custodians**

PDS Planning's fees are exclusive of transaction fees and other related costs and expenses imposed by custodians/broker-dealers, which shall be incurred by the client. Fees such as wire transfer and electronic fund fees, as well as transaction fees may be incurred. (Transaction fees are charged for certain no-load mutual funds, individual equity, and fixed-income securities transactions.) Clients incur no commission charges. Mutual funds and exchange traded funds charge internal management fees, which are disclosed in a fund's prospectus. PDS Planning does not receive any portion of these charges.

All fees paid to PDS Planning for Investment Management are separate from the fees and expenses charged to shareholders of mutual funds by the funds, and a complete explanation of these expenses is contained in each fund prospectus. PDS Planning *does not* charge management fees based on the performance of a client's portfolio.

Item 12 further describes the factors that PDS Planning considers in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation.

### **No Compensation for Selling Products**

PDS Planning does not accept compensation from the sale of any securities in client investment advisory accounts.

### **Non-Participation in Wrap Fee Programs**

PDS Planning does not participate in any wrap fee program.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

PDS Planning does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client), because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

## **Item 7 – Types of Clients**

PDS Planning's clients generally include individuals, corporations, corporate pension and profit-sharing plans, charitable institutions, non-profit corporations, and endowments.

The minimum client household investment advisory account size is generally \$500,000 of assets under management. This minimum account size may be waived by PDS Planning. Minimum annual retainer fees are \$5,000, but PDS may reduce or waive this minimum.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

PDS Planning usually allocates (or recommends that the client allocate) investment assets among various individual equity, mutual fund, exchange-traded funds (ETFs), and/or fixed-income securities in accordance with the client's investment objectives.

Security analysis methods *may* include the following methods of security analysis:

- **Fundamental analysis** looks at historical and present data, with the goal of making financial forecasts.
- **Cyclical analysis** looks at the historical relationships between prices and market trends, with the goal of forecasting the direction of prices.
- **Technical analysis** looks at price and volume data via charts, with the goal of using pattern movements to predict future price movement.

The main sources of information include corporate financial filings and reports, third-party research reports, corporate rating services, company press releases, financial newspapers and magazines. Other sources of information that PDS Planning may use



include research from Morningstar, Inc. (especially for mutual funds) and the many sources available via the internet.

The investment strategies used to implement any investment advice given to clients may include the following:

- *Long-term purchases*, where securities are held at least a year
- *Short-term purchases*, where securities are sold within a year
- *Margin transactions*, where account assets are borrowed to purchase securities
- *Option writing*, where an investor contracts for the purchase or sale of a security at a predetermined price during a specific period of time.

### **Risk of Loss**

All investing strategies involve risk. Different types of investments involve varying degrees of risk, and *it should not be assumed* that the future performance of any specific investment or investment strategy will be profitable. Investing in securities involves risk of loss that clients should be prepared to bear. Our investment approach keeps the risk of loss in mind, and PDS Planning's investment strategies do not present any significant or unusual risk.

Investors may face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar tomorrow will not buy as much as a dollar today, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the local currency of the originating country. This is also referred to as exchange-rate risk.

- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

## **Item 9 – Disciplinary Information**

Registered Investment Advisers are required to disclose all material facts regarding any legal or disciplinary events in the previous ten years that would be critical to your evaluation of PDS Planning or the integrity of PDS Planning's management. To this end, *PDS Planning has not been the subject of any disciplinary action.*

## **Item 10 – Other Financial Industry Activities and Affiliations**

PDS Planning, Inc. has no other business activities other than those already disclosed in this document, and it is not affiliated with any broker-dealer, bank, accounting or law firm. Neither PDS Planning nor its Advisors are registered as a broker-dealer or a registered representative of a broker-dealer.

## **Item 11 – Code of Ethics**

The employees of PDS Planning, Inc. have committed to a Code of Ethics that is available for review by clients and prospective clients upon request. PDS Planning has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. All persons at PDS Planning must acknowledge the terms of the Code of Ethics annually as part of the acknowledgement of the Written Compliance & Supervisory Procedures Manual. Our fiduciary duty compels all employees to act with the utmost integrity in all of our dealings. This fiduciary duty is the core principle underlying the Code of Ethics.

Employees of PDS Planning, Inc. may buy or sell securities that are also held by clients. Approval of individual stock trades by the Chief Compliance Officer is required *prior to the trades*. Employees may not trade individual stock positions ahead of client trades. Employees of PDS Planning comply with the provisions of the Written Compliance and Supervisory Procedures Manual.

Neither PDS Planning nor its employees recommend, buy, or sell for client accounts securities in which PDS Planning or its employees have a material financial interest.

## **Item 12 – Brokerage Practices**

PDS Planning suggests that the institutional services of Charles Schwab & Co, Inc. (Schwab), a broker-dealer, be employed for the purchase and custody of securities. PDS Planning believes this firm offers acceptable service, best execution, and reasonable fees. There are no commissions charged in client advisory accounts. Schwab may charge nominal execution (transaction) fees for effecting transactions. Other factors for the recommendation include Schwab's historical relationship with PDS Planning, the company's financial strength, and reputation.

In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of broker-dealer services, including the value of research provided, execution capability, transaction costs, and responsiveness. PDS Planning's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

Schwab provides PDS Planning with access to its institutional trading and operational services, which are not available to Schwab retail investors. These services generally are available to independent investment advisors at no charge to them so long as a total of at least \$10 million of the advisor's clients' account assets are maintained at Schwab. Schwab's services include research, brokerage, custody, access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment.

Other products and services assist PDS Planning in managing and administering clients' accounts. These include software and other technology that provide access to client account data, facilitate trade execution, provide research, pricing information and other market data, facilitate payment of PDS Planning's fees, and assist with back-office support, recordkeeping and client reporting.

Other services may include information technology and regulatory compliance, consulting, publications, and conferences. Schwab may discount or waive fees it would otherwise charge for some of these services. The availability to PDS Planning of the foregoing products and services is not contingent upon committing to Schwab any specific amount of business above the \$10 million minimum.

The aforementioned benefits are used to service all client accounts.

*PDS Planning's Chief Compliance Officer, Robert A. Cochran, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.*

## **Trade Aggregation Policy**

Generally speaking, when PDS Planning provides investment management services to clients, the transactions for each client account are made independently. However, when practical, client trades in the same individual bond or stock, or exchange-traded fund will be aggregated in a single order (a "block").

### **Item 13 – Review of Accounts**

Client reviews are prepared in accordance with the client's Investment Advisory Agreement and more frequently if circumstances dictate. Such circumstances include, but are not limited to, changes in market conditions, tax laws, and individual personal situations. The level of review will be determined by the complexity of the portfolio, the client's Investment Policy Statement (when applicable), and the factors that trigger the review.

These reviews will be performed by the firm's professional advisors. There are no specific instructions given to the reviewer other than to make recommendations/changes that are appropriate to and *in the best interests of the client*.

PDS Planning makes no representation with respect to legal or tax matters, and it is the client's responsibility to consult with legal or tax counsel as necessary.

### **Item 14 – Client Referrals and Other Compensation**

PDS Planning does not compensate anyone or any company for client referrals.

### **Item 15 – Custody**

It is PDS Planning's policy not to take physical custody of client securities.

At a client's consent, *per Item 5 above*, PDS Planning may have the ability to have its client fees debited directly from client accounts by the custodian on a quarterly basis.

Clients will receive statements at least quarterly from the custodian that holds and maintains client's investment assets. PDS Planning urges clients to carefully review such statements and compare such official custodial records to the account statements that we may provide to clients. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 – Investment Discretion**

PDS Planning may receive **discretionary** authority from the client to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account. Discretionary authority is specifically given or denied on each client contract. When selecting securities and determining amounts, PDS Planning observes the investment policies, limitations and restrictions of the clients for which it advises.

Clients that engage PDS Planning on a **non-discretionary** investment advisory basis *must be willing to accept* that PDS Planning cannot effect account transactions without obtaining prior verbal or written consent from the client, with the following exceptions: PDS may make sales of securities in non-discretionary client accounts as needed 1) for cash distributions to clients and 2) for billings that are debited directly from client accounts.

Thus in the event of a significant market increase or decrease during which the client is unavailable, PDS Planning will be unable to effect any account transactions (as it would for its discretionary clients) *without first obtaining the client's verbal or written consent*.

Investment guidelines and restrictions must be provided to PDS Planning in writing.

## **Item 17 – Voting Client Securities**

As a matter of firm policy and practice, PDS Planning does not vote proxies on behalf of advisory clients. Unless PDS Planning is directed in writing, clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. Clients will receive proxies directly from the custodians or transfer agents. PDS Planning may provide *advice* to clients regarding the clients' voting of proxies.

## **Item 18 – Financial Information**

Registered Investment Advisers are required in this Item to provide you with certain financial information or disclosures about their financial condition. PDS Planning has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.