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This brochure provides information about the qualifications and business practices of Foster and Motley, Inc. ["F&M"]. If you have any questions regarding the contents of this Brochure, please contact us at 513-561-6640 or via electronic mail, to Lawrence J. Bernhard, Chief Compliance Officer, at [larry@fosterandmotley.com](mailto:larry@fosterandmotley.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. F&M is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provides you with information with which you may determine to hire or retain an adviser.

### **Material Changes**

This section will discuss only specific material changes that are made to the Brochure and will provide a summary of such changes. Pursuant to SEC Rules, we will ensure that you receive an annual summary of any material changes to this and subsequent Brochures, as well as an offer to receive a copy of the Brochure upon request. We may also provide other ongoing disclosure information about material changes as necessary and provide you with a new Brochure at any time, without charge.

There have been no material changes to the Brochure.

Our Brochure is also available on our web site [www.fosterandmotley.com](http://www.fosterandmotley.com), also free of charge. Additional information about F&M is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with F&M who are registered, or are required to be registered, as investment adviser representatives of F&M, if applicable.

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## Services

F&M has provided investment advisory services since November 1996, and has been registered with the SEC since November 1996. F&M is organized as an Ohio Corporation, which is owned by seven individual shareholders, none of whom owns a majority of the firm.

Our mission is to assist our clients in achieving their financial goals. We are a “fee-only,” independent investment advisory firm, which means the only form of compensation are the fees we receive from clients (i.e. no commissions, referrals, etc.). We offer wealth management services through our two primary lines of business: ongoing investment management; and ongoing, comprehensive financial planning. Clients may engage us for investment management only, financial planning only or for a combination of both services.

Our services include the following:

A). Investment Management: we provide the ongoing selection and management of investment portfolios, using a combination of individual securities, mutual funds, and private investments, that takes into account your return objectives, risk tolerance, liquidity needs, time horizon, tax status, and any unique personal circumstances.

B). Mutual Fund Only Management: we provide the ongoing selection and management of investment portfolios, using all no load (no commission) mutual funds, that takes into account your return objectives, risk tolerance, liquidity needs, time horizon, tax status, and any unique personal circumstances.

C). Financial Planning: we provide comprehensive and ongoing financial planning either on an hourly or retainer basis. Generally, a financial planning engagement consists of the following steps:

- Evaluation your current financial situation.
- Discussion and definition of your financial goals.
- Development of a plan, or a road map, to attain your goals.
- Assistance with implementation of the recommended actions.

Financial planning is a process not a product and each client is unique. For that reason we do not use “canned” financial planning software to create a “financial plan.” Our work “product” is our good advice and counsel. We document our recommendations and analyses in writing, summarizing your key facts, and goals as well as our recommendations.

We take a comprehensive approach to financial planning. We cannot prescribe remedies without first conducting a thorough review of your financial condition. Our financial planning service includes, but is not limited to, cash flow planning; budgeting; financial independence/retirement planning; investment planning & review; tax analysis; college funding analysis; life, disability, and long-term care insurance needs planning; and estate planning.

We are comfortable working with other professionals such as bankers, attorneys, insurance agents, accountants, etc. We understand the importance of using other professionals as needed during all phases of the planning process.

Currently, we have approximately 340 financial planning clients that have relationships with the team headed by David Foster.

D). Wealth Management: we bundle our ongoing investment management and comprehensive financial planning services under a combined fee structure.

As of February 29, 2012, F&M managed over \$723,000,000 in client assets on a discretionary basis.

Miscellaneous:

Non-Investment Consulting/Implementation Services. To the extent requested by the client, F&M *may* provide consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. Neither F&M, nor any of its representatives, serves as an attorney or insurance agent, and no portion of F&M's services should be construed as same. To the extent requested by a client, F&M may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance, etc.), including CPA representatives of F&M for tax preparation purposes. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from F&M. Please Note: If the client engages any unaffiliated recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional.

Client Obligations. It remains the client's responsibility to promptly notify F&M if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising F&M's previous recommendations and/or services. In performing its services, F&M shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon.

Please Note: Investment Risk. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by F&M) will be profitable or equal any specific performance level(s).

## **Fees and Compensation**

Since we are a "fee-only" firm, our only source of compensation comes from the fees our clients pay us. We do not accept commissions, referral fees, or other payments from any third parties. We are independent from all financial product providers. Our compensation system is designed to ensure that

our professionals' main focus is on our clients, not production, internal competition, or the generation of commissions.

Investment advisory fees will generally be billed quarterly in advance at one fourth of the annual rate, and are based on the market value of the client's account under management as of the last business day of the preceding month. With previous client consent, investment advisory fees are deducted from client accounts. There are no start-up or termination fees. Clients may terminate their relationship with F&M, without penalty, at any time upon written notice. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. At no time are fees of \$500 or more billed more than 6 months in advance.

In addition to our fees, clients may also pay additional charges imposed by their custodian, other brokers, mutual fund managers, and other third parties. Those charges may include: brokerage commissions, transaction fees, custodial fees, wire transfer and electronic fund transfer fees, and other fees and taxes on brokerage accounts and securities transactions. F&M does not receive any portion of these commissions or fees.

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

Family accounts may be aggregated for purposes of fee calculations and receiving fee breakpoints (see fee breakpoints below). Fees for minimum account sizes may be negotiable in certain circumstances, for example, for accounts consisting primarily of low cost basis securities, family holdings, or other more passively managed securities. The minimum fee may be temporarily waived if significant additional contributions are anticipated. In addition to the foregoing, there may be historical fee schedules in place with long-standing clients that may differ from those applicable to new client relationships.

We are not compensated by commissions from load mutual funds or in any other way directly or indirectly by mutual fund companies. Consequently, we seek to avoid the natural conflicts of interest that follow when F&M makes a selection of a specific mutual fund. However, each of the no-load or load-waived mutual funds selected by F&M does have a management fee that is paid to the investment adviser of the fund as well as other expenses, which are disclosed in each fund's prospectus.

As a result, clients invested in mutual funds pay two layers of advisory fees, a fee to the mutual fund's investment adviser and another fee to F&M. Although, some of the mutual funds may only be accessed through an investment adviser, most of the mutual funds we recommend are available to you by investing directly with the mutual fund company. Therefore, you may be able to avoid the second layer of fees by not using the advice of F&M, making investment decisions on your own, and by purchasing mutual funds shares directly from the mutual fund companies. We believe that we have priced our services competitively and our fees are comparable with other advisory firms.

Some other advisers may be compensated by 12(b)-1 payments, which are paid directly by mutual funds companies (e.g., those advisers also register as a broker/dealer). These advisers may choose to limit their mutual fund selections only to those mutual funds that make such payments. We do not accept 12(b)-1 payments, so our mutual fund selections are not limited to those that have 12b-1 fees.

## **Investment Management Fees & Breakpoints**

For ongoing investment management services, our fees are based on the amount of assets managed. For direct securities accounts (primarily stocks, bonds, etc.) the fee schedule is 0.9% annually for the first \$1,000,000 of assets under management, 0.75% for the next \$3,000,000, 0.50% for the next \$6,000,000, and 0.375% thereafter, subject to a minimum annual fee of \$9,000.

## **Mutual Fund Only Management Fees & Breakpoints**

For ongoing mutual fund only accounts, the annual fee is 0.75% of the first \$500,000 of assets under management, 0.50% for the next \$2,500,000, and 0.375% thereafter, subject to a minimum annual fee of \$3,000.

## **Comprehensive Financial Planning Engagement Fee**

Most initial comprehensive financial planning engagements are performed on a flat fee basis. After we learn about a client's unique situation and needs, we will provide a fee quote. Fees are generally in the range of \$4,500 to \$8,000 for a comprehensive plan. Most initial comprehensive planning engagements are completed within 6 months. One third, of that fee is typically billed at the beginning of the engagement, one third two months later, and one third two months after that.

## **Financial Planning Retainer Fee**

A retainer agreement is utilized where the client desires ongoing financial planning services. Annual retainer fees are negotiated with each client and are based on the complexity of the client's situation and the approximate amount of time and resources required to provide the service agreed upon in the retainer agreement. Retainer fees are billed and payable in advance at one fourth or one half the annual fee. The minimum semi annual retainer fee is \$1,500. Ongoing hourly engagements are based on the fee schedule in effect at that time.

## **Wealth Management Fees & Breakpoints**

Wealth management bundles the fees for comprehensive and ongoing financial planning and discretionary investment management. Exceptions may be made at the discretion of F&M on a case-by-case basis. The fee for this service is based on the amount of assets under management. The annual fee is 1.00% for the first \$2,000,000 of assets under management, 0.75% of the next \$3,000,000, 0.50% of the next \$5,000,000 and 0.375% thereafter, subject to a minimum annual fee of \$15,000. The minimum aggregate account size for wealth management is \$1,500,000. Generally, it is expected that all or nearly all of a client's "manageable" financial assets will be under F&M's investment management to qualify for wealth management.

In certain circumstances, a client's need for financial planning services may be so complex that it exceeds what F&M can offer under the bundled wealth management fee. In such cases, an additional financial planning fee (either on an hourly basis, project, or retainer basis) will apply, but this will be agreed upon in advance by both the client and F&M.

### **Performance-Based Fees and Side-By-Side Management**

F&M 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).

### **Types of Clients**

F&M provides investment advisory services to individuals, families, corporations, pension and profit-sharing plans, and charitable organizations. Minimum fee requirements are provided in Item 5.

### **Methods of Analysis, Investment Strategies and Risk of Loss**

#### **Equities**

Growth at a Reasonable Price. Most equity managers follow either a “value” or “growth” investment approach. Value investors seek cheap stocks, while growth investors pursue stocks offering prospects of rapid earnings growth, but each approach has serious flaws. As to value, it is easy to find stocks that are cheap, but most deserve to be so. Warren Buffett compares the ultimate value stock to a cigar butt picked up off the street – very cheap but not really worth very much either. On the other hand, it is also easy to find great growth companies, but they are typically priced accordingly (or well beyond) and often prove to be risky when earnings disappoint even a little. In contrast, our common-sense, fundamental, core approach has four cornerstones. In stocks we simultaneously seek:

1. Lower risk through conservative valuation.
2. Generous dividend yields.
3. Strong growth prospects (especially as demonstrated by recent dividends growth)
4. High quality, conducive to long holding periods (i.e., financial strength, earnings predictability, consistent dividend growth, insider ownership, high return on equity, etc.)

As such, our style is neither “value” nor “growth” in a strict sense; we attempt to blend the best elements of each into a “core” equity strategy of purchasing quality companies at reasonable prices.

Common Stock Characteristics. Our ideal stock purchase candidate offers a combination of greater than average dividend yield, greater than a market dividend growth, lower valuation, and higher quality. We will purchase a stock that does not satisfy one of those criteria if it is exceptional in others (for example, we will not rule out a stock that does not pay a dividend, but we require exceptional valuation, growth prospects and quality from such a holding). Our favorite stock opportunity is when a great

company happens to be unusually cheap because of a market over-reaction to conditions that we expect to be temporary.

Bottom-up. A “top-down” investment approach starts with macro-economic forecasts of things such as interest rates and then seeks to identify sectors and industries that should prosper in the expected economic scenario. Unfortunately, that approach involves forecasting, which we believe no one can do consistently well. In contrast, our approach seeks to avoid forecasting, and is focused on “bottom-up” analysis of the fundamentals of individual companies and their securities.

Sell Discipline and Holding Period. Upon purchase, the planned holding period for stocks is forever, but securities do get sold when an alternative presents a better combination of expected return or lower risk sufficient to more than offset the cost of the trade (including the tax implication). In our tax-sensitive approach, we strive to hold stocks at least three years on average.

Proprietary, Quantitative Process. Companies come to our attention through the whole spectrum of experience, and those that appear attractive are included in a proprietary quantitative computer model for ongoing analysis and continuous evaluation. This quantitative model allows for very broad coverage, but its most significant advantage is discipline and the elimination of as much human bias and emotion as possible. Technically, an “expert system,” this model is designed to favor the same stocks we would otherwise select through manual analysis, but it does so more efficiently, rapidly, consistently and objectively than we ever could alone. Though it is never employed as the only element in our decision making process, this “by-the-numbers” quantitative evaluation is a critical tool for us to use when sorting through the emotion-filled “noise” of financial markets.

Breadth versus Depth. Our proprietary computer model covers a wide spectrum of relevant companies on a quantitative, objective basis. Such a quantitative approach must always be a somewhat simplified model of reality, but what it must give up in depth is much more than offset by the overwhelming advantages of discipline and context.

Market Timing. We don’t seek to time markets by making large shifts between stocks, bonds, alternatives, real estate, and cash. However, we may alter the asset mix of portfolios around an account’s long-term targets in response to ever-changing balances between interest rates, earnings, and stock prices.

Equity Diversification by Industry. The domestic equity portion of individually managed portfolios generally holds about 45 positions, which are widely diversified across industries. Industry or sector “bets” are minimized by reserving a market weight allocation for each and then seeking to fill that “position” with the best available candidate from among the companies in that industry. For example, if insurance companies account for 4% of the overall market, then we allocate 4% of the domestic equity portion of a portfolio to the insurance company stocks that we believe are the most attractive to own.

Large/Small and Domestic/International Equity Diversification. Beyond sector diversification, equity portfolios include stocks of both large and small domestic companies, and both established and emerging international markets. In so diversifying, we seek to enhance the expected long-term return and to moderate short term absolute risk, but this also has the potential to increase the short term deviation of returns relative to popular indexes.



## **Bonds**

We consider bonds to be an extremely important part of most client portfolios. Our investment approach with bonds is to emphasize intermediate maturity, and to focus on fundamental credit research, yield spread, and broad diversification, both among classes of fixed income instruments and across maturities. At each point in time, we emphasize those sectors of the fixed income market that we perceive represent the best value, while seeking to avoid interest rate “bets.”

## **Mutual Funds**

Most of the discretionary assets we manage are invested in individual stocks and bonds, but no-load mutual funds are used for the bulk of an account’s international and alternative asset exposure. Smaller accounts are generally constructed entirely of no load mutual funds to achieve adequate diversification.

We attempt to base our selection of mutual funds on the following criteria: (i) consistency of style and management tenure; (ii) consistency of historical performance; and (iii) lower than average fund expense ratio (although there may be instances where we select a fund even if its annual expense ratio is somewhat higher than the average expense ratio of its peers).

## **Alternative Investments**

Alternative investments have been widely used by the high net worth individuals, endowments and foundations for years. Alternative investments are expected to have a low correlation to traditional stocks and bonds, and to broaden portfolio diversification.

Our alternative investment allocation seeks to employ Absolute Return and Commodity (Real Asset) strategies in client portfolios, where appropriate. Absolute Return strategies seek positive rates of return regardless of market conditions. Commodity (Real Asset) strategies seek to invest in securities whose values are linked to tangible goods such as agricultural commodities or petroleum. Real Asset strategies are designed to benefit from inflation, and since rising inflation generally has a negative impact on stocks and bonds, these strategies (as well as Absolute Return strategies) provide another level of diversification. For most clients, the allocation to alternatives is achieved via investment in no load mutual funds, closed end funds, exchange traded funds and notes, and royalty trusts. For clients who meet strict regulatory net worth and income requirements, private investments may be used for a portion of their alternative allocation. Regardless of the advantages of investing in Alternative Investments, investors must be aware that these investments may involve a higher level of risk.

**Private Investment Funds.** F&M may provide investment advice regarding private investment funds. F&M, on a non-discretionary basis, may recommend that certain qualified clients consider an investment in a private investment fund. F&M’s role relative to the private investment funds shall be limited to its initial and ongoing due diligence and investment monitoring services. If a client determines to become a private fund investor, the amount of assets invested in the fund(s) shall be included as part of “assets under management” for purposes of F&M calculating its investment advisory fee. F&M’s clients are under absolutely no obligation to consider or make an investment in a private investment fund(s).

Please Note: Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Unlike other liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

Please Also Note: Valuation. In the event that F&M references private investment funds owned by the client on any supplemental account reports prepared by F&M, the value(s) for all such private investment funds shall reflect the most recent valuation provided by the original issuer, as long as F&M believes it is reasonable, if not then; to the extent an investment is audited, a book value based on the most recent audited financial statements will be used, as long as F&M believes it is reasonable. If not, then; original cost of the investment, unless F&M determines, based on disclosed facts, that the security should be valued lower than cost, in which case that valuation will be used. Note: the current value(s) (to the extent ascertainable) could be significantly more or less than the original purchase price.

## **Real Estate**

Where appropriate, we seek to include an allocation to domestic and international Real Estate to improve diversification. For most clients, we use a combination of no load mutual funds, and real estate investment trusts. For clients who meet strict net worth and income requirements, we may also invest in private investments.

## **Performance Measurement**

Investing (as opposed to speculating) is a long-term proposition and should be evaluated accordingly. We believe short-term performance should be largely ignored. Portfolios should be evaluated as a whole and not on the basis of the inevitable worst (or best) performing positions therein.

## **Risk of Loss**

Investing in securities involves risk of loss that you should be prepared to bear. There are inherent risks associated with investing in securities markets--returns may vary, and your portfolio could lose money. Investments in common stocks, alternatives, and real estate tend to be more volatile than many other investment choices. The value of your portfolio will decrease when the value of an individual company or multiple companies in your overall portfolio decreases. The value of the portfolio will also decrease when the stock market in general goes down, likely regardless of how well some individual companies in your portfolio perform.

### **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the Adviser or the integrity of its management. F&M has no applicable disciplinary information.

### **Other Financial Industry Activities and Affiliations**

We are required to disclose all material facts regarding any other financial industry activities and/or affiliations. None of our supervised people have any other financial industry activities and/or affiliations.

### **Code of Ethics**

We have adopted a Code of Ethics (the “Code”) for all of our supervised persons that describe our high standard of business conduct, and fiduciary duty to our clients. The Code includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor-mongering, restrictions on the acceptance of significant gifts, the reporting of certain gifts and business entertainment items, and personal securities trading procedures. F&M considers all of its employees supervised persons; therefore, all employees must complete an acknowledgement form that they have received a copy of the Code at the commencement of employment and annually, thereafter.

We believe our Code of Ethics is reasonably designed to prevent or mitigate conflicts of interest between F&M and its clients. Employees’ and persons associated with us are required to follow the Code, and as part of our due diligence practice F&M monitors employee and associated person trading activity. We anticipate that, in appropriate circumstances, consistent with clients’ investment objectives, we will recommend to our investment advisory clients or prospective clients, the purchase or sale of securities in which F&M and/or its employees, directly or indirectly, have an interest. Furthermore, our employees may trade in the same securities with client accounts on an aggregated basis when this practice is consistent with F&M’s obligation of best execution. In such circumstances, our employees’ and our clients’ accounts will share commission costs equally and receive securities at a total average price. In addition, F&M has implemented procedures to ensure that clients’ benefit will always prevail when allocating those trades. The Code of Ethics is designed to ensure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Under the Code of Ethics, certain classes of securities have been designated as exempt transactions, based upon a determination that they would not materially interfere with the best interests of F&M’s clients. In addition, the Code of Ethics requires pre-clearance of certain transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances permits employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. For more details regarding trade aggregation and trade allocation see Item 12.

It is our practice not to affect any principal or agency cross securities transactions for client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer. We are not registered as a broker-dealer and have no affiliates that are registered as a broker-dealer.

You may request a copy of our Code of Ethics by contacting Lawrence J. Bernhard, CCO at 513-561-6640 or at [larry@fosterandmotley.com](mailto:larry@fosterandmotley.com).

## Brokerage Practices

### Selection of Brokers

While we generally have authority to suggest or determine brokers, and to negotiate commissions on behalf of clients, the final selection of a broker remains the client's choice. The criteria used for the selection of brokers or custodial brokers will be the full range and quality of brokers' services, including ability to offer best execution (e.g., the costs of trades of listed securities, the costs of trades of securities in which other brokers may make a market, and the ability to execute trades from time to time at prices between the bid and the ask, considering the general volume of trades F&M has to work with as well as the average size and range of sizes of those trades, etc.), financial condition, responsiveness, and the values and quality of custodial services provided to the client, if any.

We generally recommend or select a broker or a prime broker to serve as the custodian for your account. Having a broker serve as a custodian rather than a bank has the advantage of avoiding bank custody fees. However, it may have the disadvantage of limiting our ability to seek best prices and execution in certain instances, especially for non-listed securities, however some custodian brokers allow what is known as "Prime Broker" or "Trade away" trades (i.e., trades through other approved brokers and market makers) for accounts of a certain size (generally, accounts \$125,000 or more). These trades, however, will have an additional fee charged by the executing broker (generally \$25). When we recommend a broker custodian rather than a bank custodian, it is because we consider such custodial services to be best alternative for the client after consideration of all the relevant advantages and disadvantages.

From time to time, we may direct brokerage transactions to brokers other than an account's prime or custodian broker, and that broker may or may not provide research services (e.g., economic and market research, financial data, etc.). This situation will only take place in the following circumstances: (1) for listed stocks and bonds, to obtain lower brokerage commissions or better execution (net of prime broker fee which is \$25); (2) for unlisted bonds, to obtain better pricing or availability; (3) for unlisted stocks, to obtain net pricing from a market-maker; or (4) to seek availability to buy an IPO when

directed by a client. In each case, direction of brokerage to brokers other than client's prime or custodial broker is done for the benefit of clients, and never for the primary purpose of obtaining research, as also explained in Item 14.

### **Schwab Advisor Services, Division of Charles Schwab & Co.**

F&M recommends that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. ("Schwab"), a registered broker-dealer, to maintain custody of clients' assets and to effect trades for their accounts. F&M is independently owned and operated and not affiliated with Schwab. Schwab provides F&M with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisers on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the adviser's clients' assets are maintained in accounts at Schwab Advisor Services, and are not otherwise contingent upon Adviser committing to Schwab any specific amount of business (assets in custody or trading). Schwab's services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or require a significantly higher minimum initial investment.

### **Research Reports and Other Products or Services Received by F&M from Broker-Dealers**

F&M receives research reports from broker dealers it utilizes to effect client transactions, including Schwab. Such reports have been received during F&M's last fiscal year. The receipt of such reports is not directly connected to the recommendation of brokerage/custody services to advisory clients but does create a possible conflict of interest which clients should be aware in assessing F&M's recommendations.

Schwab also makes available to F&M other products and services that benefit F&M but may not benefit its clients' accounts. Some of these other products and services assist F&M in managing and administering clients' accounts. During F&M's last fiscal year these products and services have included software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of F&M's fees from its clients' accounts, and assist with back-office functions, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of F&M's accounts, including accounts not maintained at Schwab Advisor Services. Schwab Advisor Services also makes available to F&M other services intended to help F&M manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, speaking engagements, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab may make available, arrange and/or pay for these types of services rendered to F&M by independent third parties. Schwab Advisor Services may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to F&M. During the current fiscal year Schwab is providing the opportunity to have Greg Valliere speak to F&M clients and prospects at no cost to F&M.

F&M does not engage in soft dollar arrangements with any broker in which it receives research or other benefits from a broker in exchange for paying higher commission costs. (Soft dollar denotes the practice of directing brokerage transactions to a specific broker in exchange for research services.) F&M's Chief Compliance Officer, Lawrence J. Bernhard, 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.

### **Best Execution**

As an investment advisory firm, F&M has a fiduciary and fundamental duty to seek best execution for client transactions. While best execution is difficult to define and challenging to measure, there is some consensus that it does not solely mean the achievement of the best price on a given transaction. Rather, it appears to be a collective consideration of factors concerning the trade in question. Such factors include the security being traded, the price of the trade, the speed of the execution, apparent conditions of the market at the time the trade is placed, including the float and efficiency of the market, the need of the particular client or clients and the price of the trade. F&M seeks to obtain best execution for its clients' transactions, which may not necessarily mean the lowest commission available but the best overall qualitative execution in the particular circumstances.

Upon written request, clients may authorize us to direct trades to a specific broker. Directed accounts may not be able to seek and obtain the best price and execution through negotiation and/or bunching of orders, and the client may receive less favorable price and execution than our other clients. For that reason, clients directing brokerage assume the responsibility of monitoring their brokerage fees and arrangements.

### **Cross Trades**

Consistent with our duty to seek to obtain best execution, we may occasionally cross trades among client accounts. A cross trade occurs when we purchase and sell a particular security among two or more accounts under our management by instructing brokers to cross the trade. We generally use "cross trades" to address account funding issues and when it specifically deems the practice to be advantageous for each participant. In no instance do we receive additional compensation when crossing trades for client accounts. We will always seek to ensure that the terms of the transaction, including the consideration to be paid or received, are fair and reasonable, and the transactions are done for the sole benefit of the clients.

### **Trade Aggregation**

From time to time, F&M executes client transactions on a block or aggregate basis. That is, they enter one large trade and allocate the shares among various client accounts. This technique may allow F&M to execute transactions in a more timely, equitable and efficient manner in an attempt to achieve a better overall price execution for a group of clients. F&M's policy is to engage in this technique when it's consistent with client objectives and restrictions. Clients participating in any aggregated transactions will receive an average share price on a pro-rata basis.

## **Trade Allocation**

F&M's trade allocation policies and procedures call for a fair and equitable method of allocating trades among accounts with no particular client(s) or groups of clients being favored or disfavored. Generally F&M must identify a given block trade allocation before that trade is entered. If the trade is filled as entered, F&M must allocate according to the pre-determined block. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a random basis using a proprietary Microsoft Office Excel spreadsheet. Any exceptions will be explained on the trade order. If issues arise relating to successfully filling such allocation pursuant to the predetermined block, F&M must allocate the shares in a fair and equitable manner and document the rationale for deviating from the pre-determined allocation.

## **Trade Errors**

From time-to-time F&M may make an error in submitting a trade order on a client's behalf. When this occurs, F&M may place a correcting trade with the broker-dealer which has custody of the client's account. It is the policy of F&M to bear any costs of correcting the trade in a client account.

## **Review of Accounts**

The investment professionals responsible for reviewing accounts will have no more than 100 discretionary account relationships assigned to them. Discretionary accounts that are invested primarily in individual securities are generally reviewed at least every other month or more often, if there is an addition to or withdrawal from the account or if a bond is called, matures, or is redeemed. In addition, accounts may be reviewed as a result of buy or sell decisions related to specific securities. Investment professionals responsible for reviewing both discrete and Mutual Fund Only (MFO) accounts, (but a majority of MFO) shall have no more than 150 account relationships. Accounts invested primarily in mutual funds are generally reviewed quarterly.

William M. Motley, Shareholder; Ralph J. Scherer, Shareholder; John A. Melville, Shareholder; Elizabeth M. Green, Shareholder; Thomas J. Guidi, Portfolio Manager, and Zachary T. Horn, Mutual Fund Advisor; each review client accounts. David A. Foster, Shareholder; Ralph J. Scherer, Shareholder; Lucas P. Hail, Shareholder; and Thomas J. Guidi, Portfolio Manager; each provide oversight of the management of the mutual fund only accounts.

All clients receive monthly statements of holdings and transactions furnished by their custodian. Discretionary investment management clients, whose portfolios are generally invested in individual stocks and bonds, receive quarterly reports from us including cost and market value information for each security as well as for the portfolio as a whole, estimated annual income for each security as well as the portfolio as a whole, and performance calculations. Such clients also receive, for taxable accounts, a year end-summary of realized capital gains.

Discretionary investment management clients whose portfolios are solely invested in mutual funds will receive the same reports received by other discretionary clients. We currently do not manage any non-discretionary accounts.

## **Client Referrals and Other Compensation**

We do not have any third-party solicitation agreements and do not pay third parties for referring clients to us. However, we do receive fee waivers or discounts for non-research services including but not limited to access or admission to conferences, consulting (relating to business management, marketing, compliance, technology, web sites, etc.), postage, certain software, publications, occasional entertainment, file download services and on-line quotes, provided by prime or custodial brokers used by F&M's clients.

Our decision, however, to take advantage of such offered services, fee waivers or discounts does not result in any known specific additional costs to clients. But since there is a financial benefit to us, this may create a potential conflict of interest for us to recommend one broker over another. It is our policy that because such waivers and discounts are not a factor in recommending a broker; the foregoing potential conflict of interest is irrelevant. Details regarding our criteria for recommending a broker were previously described in Item 12.

## **Custody**

We do not have custody or possession of your assets other than the ability to direct debit fees. You should receive periodic statements from the broker dealer or other qualified custodian that holds and maintains your assets. Nevertheless, please ensure that you receive statements from your qualified custodian that holds and maintains your assets at least quarterly. We urge you to carefully review such statements and compare your custodial records to the account statements that we may provide to you directly. Our statements may differ from the custodial statements you receive due to accounting procedures, reporting dates, or valuation differences for certain securities

Clients may authorize F&M to withdrawal or transfer funds. For example, clients may authorize investment advisory and financial planning fees be automatically deducted from their account(s). It is F&M's policy to send all clients a notice detailing the fee calculation. Advisory fees are processed no earlier than three days after the beginning of the billing period.

## **Investment Discretion**

### **Investment Discretion**

For discretionary clients, F&M requests that it be provided with written authority to determine which securities and the amounts of securities that are bought or sold. This discretionary authority is derived from a written advisory agreement between F&M and you, which grants us a limited power of attorney. In all cases, however, such discretion is to be exercised in a manner consistent with your stated investment objectives, limitations and restrictions. F&M will adhere to the investment policies, limitations, and restrictions of your account. You may impose restrictions on your account such as



prohibiting us from investing in certain securities or types of securities; however, you must provide them to us in writing.

Any limitations on this discretionary authority shall be included in this written statement. Clients may change/amend these limitations as required. Such amendments shall be submitted in writing.

### **Voting Client Securities**

Unless clients request otherwise we will vote your proxies in such a way that we believe will enhance shareholder value and/or maximize the long-term economic benefits of shareholders. If you interested in receiving a copy of our proxy voting policies and procedures or how we vote a particular proxy was voted, please contact us at (513) 561-6640.

### **Financial Information**

A registered investment adviser is required to provide you with certain financial information or disclosures about its financial condition. F&M 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.

ANY QUESTIONS: F&M's Chief Compliance Officer, Lawrence J. Bernhard, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements