



## **Pillar Financial Advisors**

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### **ADV Part II**

This brochure provides information about the qualifications and business practices of Pillar Financial Advisors. If you have any questions about the contents of this brochure, please contact us at: 781-290-4900, or by email at: ifontes@Pillarfinancial.com. 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 Pillar Financial Advisors is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

January 30, 2012

## **Material Changes**

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### **Annual Update**

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

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### **Material Changes since the Last Update**

The U.S. Securities and Exchange Commission issued a final rule in July 2010 requiring advisers to provide a Firm Brochure in narrative “plain English” format. The new final rule specifies mandatory sections and organization. We last updated form ADV Part II on January 30, 2012.

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### **More Information Available**

To receive more information about Pillar Financial Advisors, please contact us by telephone at: 781-290-4900 or by email at: [ifontes@Pillarfinancial.com](mailto:ifontes@Pillarfinancial.com).

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# Advisory Business

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## Firm Description

Pillar Financial Advisors, Inc. (“Pillar”) provides investment management and financial planning services. We provide these services to individuals and family groups with respect to their taxable and retirement accounts. At times we provide investment advice on behalf of clients to their companies or company retirement plans, and to clients’ trust funds, educational funding plans, donor advised funds or private foundations.

Pillar started in 1986 as Tax & Financial Advisors and we changed our name to Pillar Financial Advisors, Inc. in 1997.

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## Principal Owners

William T. Baldwin and Beth C. Gamel each own 50% of the outstanding stock of Pillar Financial Advisors.

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## Types of Advisory Services

Pillar Financial Advisors provides Investment Advisory and Financial Planning Services.

Investment advisory services take place in four stages:

- Client Goal Setting
- Asset Allocation
- Security analysis and selection
- Rebalancing

We work with our clients to develop their Investment Policy Statement that describes their goals and the strategy for investing and rebalancing their accounts. The Investment Policy Statement includes the client’s Asset Allocation that is consistent with their individual goals and tolerance for risk. Security analysis and selection take place both in-house and through research acquired from third parties. We rebalance periodically as a client’s investment assets become out of alignment with their asset allocation. Less frequently, we revisit each clients’ overall strategy and revise it in response to changes in their circumstances. As described below, we integrate tax planning with investment advice. We use what we learn by reading clients’ tax returns to invest so as to obtain the highest after-tax return on investments.

We customize each client’s asset allocation and the strategy for implementing it to match our client’s preferences. We normally accept discretionary authority over client accounts and enter trades on their behalf. We do not trade in accounts where we have introduced another Registered Investment Advisor as subadvisor. We respect each client’s preferences for communication and approval of investment decisions. For some we act in an entirely discretionary manner. Others require

notification but do not require client approval. Still other clients require prior approval before entering into any transactions on their behalf.

In addition to investment advice, Financial Planning Services include retirement planning, risk management, education planning, income tax planning and estate planning. Various individual employees of Pillar Financial Advisors occasionally serve as trustee or co-trustee of trusts established by clients.

Table 1 shows the approximate amount of client assets under our advice.

Table 1: Assets under our advice as of December 31, 2011

Client assets managed on a discretionary basis <sup>1</sup>	\$411,783,846
Client assets overseen by us <sup>2</sup> but managed by other investment firms	\$158,553,983
Other client assets under our advice <sup>3</sup>	\$ 47,284,334
Total client assets under our advice	\$617,622,163

## Fees and Compensation

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### Description

Pillar is “fee-only,” meaning that our only source of compensation comes directly from our client. This is consistent with our role as a fiduciary to you, our client. A fiduciary acts with the utmost integrity and always puts the clients’ interest first. We do not receive any compensation from sales of investment, insurance or other products, or from any other people we recommend to work on behalf of our clients. This compensation structure aligns our incentives with helping our clients to achieve their goals.

We fully disclose our compensation from our relationship with our clients in their wealth management agreement, and in the quarterly invoices that we send to you.

Our fees are primarily based on a percentage of assets under management, depending on the amount of assets involved and the complexity of your situation. This fee is calculated either annually or quarterly, based upon the value of the assets at the end of the year or quarter as outlined in the agreement between Pillar and the client. We also offer, where appropriate, financial planning services for a fixed retainer or using hourly rates.

We offer to deduct fees directly from client’s accounts or to send an invoice to the client for payment.

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<sup>1</sup> Discretionary means that we make investment decisions without consulting the client. We are required to make our decisions within the guidelines of the Investment Policy Statement that is approved by each client.

<sup>2</sup> We provide strategic investment advice and wealth planning advice related to these assets, but we are not responsible for the day-to-day investment decisions.

<sup>3</sup> This is the approximate value of other client assets that are under our strategic wealth planning advice.

Custodians may charge transaction fees on purchases or sales of certain mutual funds and commissions on the purchase and sale of exchange-traded funds (ETF's).

Mutual funds and ETF's charge a fee for their services as investment managers and to cover other expenses. The management fee is called an expense ratio. For example, an expense ratio of 0.50 means that the mutual fund company charges 0.5% for their services. These fees are in addition to the fees paid by you to Pillar. Separate account managers that we recommend also charge a fee for their services as investment managers, and such accounts may incur transaction fees and commissions.

For our clients, we focus on maximizing what they earn on an after-fee, after-tax basis because in the end that is more important than the pre-tax or pre-fee returns. Due to our aggregate purchasing power, we are able in certain situations to negotiate access to investments typically only available to larger accounts or to institutions, and to negotiate lower fees for our clients.

## **Performance-Based Fees**

Pillar does not use a performance-based fee structure.

## **Types of Clients**

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### **Description**

Pillar generally provides investment advice to individuals. With few exceptions, we advise pension and profit sharing plans, trusts, and estates in connection with larger client relationships. In addition to our individual clients' charitable entities, Pillar manages one private foundation with no accompanying individual as a client.

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

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### **Methods of Analysis**

Pillar researches investment managers, mutual funds, exchange traded funds and hedge funds. Through fundamental due diligence we analyze the people, the process and past performance of each manager or fund. Pillar also reviews market data, economic reports and trends to assist with the timing of investment programs or rebalancing client accounts.

We purchase research and asset allocation services from Asset Consulting Group, of St. Louis, MO. This research helps us learn about more opportunities and to benefit from more frequent and in-depth analysis than we can conduct internally.

Other sources of information that Pillar may use include Morningstar Principia mutual fund information, financial newspapers and magazines, research materials prepared by others, corporate rating services, annual reports, prospectuses, and the internet.

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## **Investment Strategies**

Each client's investment strategy depends upon the goals and objectives stated by the client during consultations. Each client executes an Investment Policy Statement that documents their goals and objectives and their desired investment strategy.

Pillar utilizes different investment strategies, depending upon client preferences and our research. Factors influencing these decisions include investment performance, income needs, and taxes. We diversify portfolios across asset classes such as bonds, large company stocks and small company stocks, and globally to diversify the risk associated with traditional markets. We also use alternative investments when appropriate for our client's situation.

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## **Risk of Loss**

All investments involve risk. Through our investment process we seek to minimize specific security risk, but we do not have a process for eliminating the risk of the broad markets. In general, risk correlates with investment returns, so to earn investment returns our clients will need to take on some risks. Investors 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 will not buy as much next year as today, because purchasing power erodes at the rate of inflation.
- **Currency Risk:** Non-US investments are subject to fluctuations in the value of the dollar against the currency of the investment's 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, consumer product companies depend on designing, manufacturing and selling their products to generate a profit. They carry a higher risk of profitability than an electric utility, 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 direct ownership of 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.

## **Disciplinary Information**

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### **Legal and Disciplinary**

The firm and its employees have not been involved in legal or disciplinary events related to past or present investment clients.

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

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### **Financial Industry Activities**

Pillar is registered with the SEC as a Registered Investment Adviser. This form is Part II of that registration.

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### **Affiliations**

Pillar has no other industry affiliations. We are not affiliated with, nor do we have financial relationships with any broker dealer, law or accounting firm, insurance agent or with any promoter or sponsor of any investment product or service. We do not pay or receive any compensation for referrals, directed trades or similar activity. However, we do work closely with our clients' other advisors, such as attorneys, CPA's, etc. and do recommend other such advisors when appropriate for our clients' situations.

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

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### **Code of Ethics**

The employees of Pillar have committed to a Code of Ethics which includes Standards of Business Conduct, Conflicts of Interest, Confidentiality, Personal Securities Trading and restrictions on trading. Each employee must read and sign the Code of Ethics annually. It is available for review by clients and prospective clients upon request.

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### **Participation or Interest in Client Transactions**

Pillar and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades. Additionally,

where a client serves a publicly traded company as a director or officer, we prohibit employees from trading in that security.

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**Personal Trading**

Chief Compliance Officer Inez Fontes reviews all employee trades each quarter. Her trades are reviewed by Beth Gamel, Executive Vice President. The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm receive preferential treatment. Since most employee trades are small mutual fund trades or exchange-traded fund trades, the trades do not affect the securities markets.

## **Brokerage Practices**

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**Selecting Brokerage Firms**

Pillar does not have any affiliation with brokerage or product sales firms. Specific custodian recommendations are made to Clients based on their need for such services. Pillar recommends custodians based on the proven integrity and financial responsibility of the firm and the best execution of orders at reasonable commission rates.

Pillar recommends discount brokerage firms and trust companies. Charles Schwab & Company serves as the primary custodian for client assets.

Pillar does not receive fees or commissions from any of these arrangements. We may receive soft dollar compensation as described below

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**Soft Dollars**

Pillar receives a software maintenance credit, currently \$10,000 per year, from Charles Schwab & Company. This credit offsets annual maintenance fees for our portfolio management software and research software. All clients benefit from this credit as it supports security research and reduces the firm's overall expenses.

The selection of Charles Schwab & Company as a custodian for clients is not affected by this nominal credit, nor does it knowingly affect trading costs or the markup on client securities transactions.

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**Schwab Advisor Services Advisory Board Membership**

Beth Gamel, Executive Vice-President of Pillar Financial Advisors serves on the Schwab Advisor Services Advisory Board (the "Board"). The Board consists of approximately 20 representatives of independent investment advisory firms who have been invited by Schwab management to participate in meetings and discussions of Schwab Advisor Services' services for independent investment advisory firms and their clients. Board members serve for three-year terms. Ms. Gamel's term ends 12/31/14. Board members enter nondisclosure agreements with Schwab under which

they agree not to disclose confidential information shared with them. This information generally does not include material nonpublic information about the Charles Schwab Corporation, whose common stock is listed for trading on the New York Stock Exchange and the NASDAQ stock market (symbol SCHW). The Board meets in person approximately twice per year and has periodic conference calls scheduled as needed. Board members are not compensated by Schwab for their service, but Schwab does pay for or reimburse Board members' travel, lodging, meals and other incidental expenses incurred in attending Board meetings.

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**Order Aggregation**

Most trades are mutual funds or exchange-traded funds where trade aggregation does not garner any client benefit.

## **Review of Accounts**

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**Periodic Reviews**

Account reviews are performed quarterly by advisors assigned to the account, or more frequently when market conditions dictate. Two members of Pillar's staff are assigned to each client account. A weekly rotation of client account reviews results in a staff discussion of each client engagement approximately every five weeks.

Account reviewers are members of the firm's Investment Committee. They are instructed to consider the client's current security positions and the likelihood that the performance of each security will contribute to the investment objectives of the client.

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**Review Triggers**

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's own situation.

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**Regular Reports**

All clients receive detailed written quarterly reports, which include an aggregation of client accounts under supervision, a comparison of the client's account's investment performance to a benchmark, and an analysis of the client's actual and strategic asset allocation. We endeavor to meet with each client on at least an annual basis.

## **Client Referrals and Other Compensation**

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**Incoming Referrals**

Pillar has been fortunate to receive many client referrals over the years. The referrals came from current clients, attorneys, accountants, employees, personal friends of employees and other similar sources. The firm does not compensate referring parties for these referrals. We have made contributions to favored charities of those making referrals and commonly pay for meals with referral sources.

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**Referrals Out**

Pillar does not accept referral fees or any form of remuneration from other professionals or vendors when we recommend a client to them.

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**Other Compensation**

Not Applicable

## **Custody**

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**Account Statements**

All assets over which we have discretionary authority are held at qualified custodians, which means the custodians provide account statements directly to clients at their address of record at least quarterly.

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**Performance Reports**

Pillar provides clients with a portfolio appraisal based upon our portfolio management software. Clients are urged to compare the account statements received directly from their custodians to the reports we provide.

## **Investment Discretion**

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**Discretionary Authority for Trading**

Pillar accepts discretionary authority to manage securities accounts on behalf of clients. This means Pillar has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold and the authority to execute the trade. However, where requested by the client, Pillar consults with the client prior to each trade.

The client approves the custodian to be used. Pillar does not receive any portion of the transaction fees or commissions paid by the client to the custodian on trades.

Discretionary trading authority facilitates placing trades in client's accounts on their behalf so that we may promptly implement their investment policy.

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**Limited Power of Attorney**

A limited power of attorney is a trading authorization for this purpose. The client signs a limited power of attorney so that we may execute the trades that the client has approved.

## **Voting Client Securities**

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**Proxy Votes**

Unless directed by our clients in writing, we do not take any action or render any advice with respect to voting proxies solicited by, or with respect to, the issuer of a

specific company's securities in which assets of the accounts may be invested from time to time.

## **Financial Information**

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### **Financial Condition**

Pillar does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because Pillar does not serve as a custodian for client funds or securities, and does not require prepayment of fees of six months or more in advance.

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### **Information Security**

Pillar maintains an information security program to reduce the risk that your personal and confidential information may be breached.

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### **Privacy Notice**

Pillar is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of nonpublic information that we collect from our clients may include information about their personal finances, information about health to the extent that it is needed for the financial planning process, information about transactions between them and third parties, and information from consumer reporting agencies, e.g., credit reports. We use this information to help our client meet their personal financial goals.

With their permission, we disclose limited information to attorneys, accountants, and mortgage lenders with whom the client has established a relationship. The client may opt out from our sharing information with these nonaffiliated third parties by notifying us at any time by telephone, mail, fax, email, or in person. With their permission, we share a limited amount of information about them with the brokerage firm in order to execute securities transactions on their behalf.

We maintain a secure office to ensure that your information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment.

We do not provide personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our Company records and personal records as permitted by law.

Personally identifiable information about our clients is maintained while you are a client of the firm, and for the required period thereafter that records are required to be

maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify in advance if our privacy policy is expected to change. We are required by law to deliver this *Privacy Notice* to you annually, in writing.