

ALTOS FINANCIAL MANAGEMENT, LLC
WHAT YOU NEED TO KNOW
ADV PART 2 BROCHURE DATED 08-12-2012

1. Cover Page

This brochure provides information about the qualifications and business practices of Altos Financial Management, LLC (AFM), a registered investment advisory firm. If you have any questions about the contents of this brochure, please contact us by phone at (408) 249-7881 or by e-mail at altosfincl@earthlink.net. Although we make every effort to comply with existing regulations, 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. The term "Registered Investment Advisor" does not, in itself, imply a certain level of skill or training.

Additional information about AFM is also available on the SEC's website at www.adviserinfo.sec.gov.

Our physical address is: 4100 Moorpark Avenue, Suite 104, San Jose, CA 95117 and the primary contact is David Hildreth. Our fax number is (408) 249-8490.

2. Material Changes

We have made the following material changes to the last annual update of our brochure, dated 6/28/2012.

We have added page numbers to the brochure and to the table of contents.

We have updated section 4. to include information on tailoring advisory services to specific client needs, and to include information on how clients may impose certain investment restrictions.

We have updated section 4. to disclose that we do not engage in any type of wrap fee program.

We have removed the reference to "Financial Planning" in section 5.

We have updated section 7. to include high-net worth individuals as clients.

We have updated section 11. concerning the potential conflict of interest that may arise when we purchase, for our personal accounts, the same securities as our clients.

In section 12. we have removed the reference to brokerage research services.

In section 13, we added detail on who reviews accounts.

In section 18. we added disclosures on likely financial impairment.

In section 19. we have added details on www.insureforlessmoney.com to David Hildreth's business background.

We have added a section 21. which discusses potential conflict of interest disclosure.

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4. Advisory Business

AFM is a California limited liability company involved the continuous discretionary management of funds on behalf of our clients under a limited trading authorization (LTA). The LTA allows AFM to buy and sell investments in a client's account (Client), which account will be held by a third party custodian in the name of Client. Custodians we use include, but are not limited to, Charles Schwab Inc, T.D. Ameritrade, Fidelity Institutional Services, Fidelity Management Trust Company, Merrill Lynch, Alex Brown , Inc, and Crowell Weedon. For the protection of our clients, AFM shall at no time receive, retain, or physically control any cash, securities, or other assets forming any part of our Client's portfolio. AFM does not have discretionary control over Client's assets, other than through an LTA. Client's assets are never commingled with other client's assets, nor with the assets of AFM; Client assets are always maintained in a segregated account, held by a third-party custodian in Client's name. AFM's owners are David Hildreth and Sheila DeShields. Sheila DeShields, wife of David Hildreth, has no management or day-to-day involvement in AFM's business and is listed as a limited liability company member and an owner of community property. AFM's investment advisors are David Hildreth and Victor M. Reid, III, who is also listed as a limited liability company member. David Hildreth is the managing member of AFM, LLC. As of 3/31/2012, AFM managed \$41,500,000 under LTA's. We tailor advisory services to the individual needs of clients where applicable. Clients may impose restrictions on investing in certain securities and types of securities by giving us written notification. We do not engage in any type of wrap-fee programs.

5. Fees and Compensation.

For continuous discretionary management agreements (Agreement), covering the management of brokerage account investments, AFM's fees are based on a percentage of assets under management as follows:

Asset Valuation	Annual Fee
The First \$100,000	1.25%
The Next \$400,000	1.00%
The Next \$500,000	0.75%
The Balance	0.50%

Fees are payable to AFM, in advance, each calendar quarter and are based on the asset valuation at the end of the preceding calendar quarter. Depending on a client's preference, AFM will deduct the advisory fee directly from Client's account, or AFM will bill Client so that the fee can be paid separately. Lower fees for comparable services may be

available from other investment advisors. The minimum fee for new clients is \$1,250 per year, but in no circumstance will the fee exceed 3% of assets under management.

When deducting fees directly from Client accounts, statements are mailed contemporaneously to Client showing the amount of the fee, and how the fee is calculated. If a client terminates the Agreement, a refund of a prepaid fee may be paid to the client, based on the number of days prorated in the calendar quarter, and based on any time spent by AFM in termination. See section 20. for more details.

For services other than discretionary management, AFM offers investment advice at the rate of \$250 per hour. Fees are due on completion of service, unless otherwise agreed. Fees are negotiable and some clients pay quarterly advisory fees in arrears.

In addition to AFM's advisory fee, clients may incur other expenses such as brokerage fees to buy and sell securities. Those fees are determined by the brokerage company. In addition, AFM may purchase pooled investment funds such as mutual funds and exchange-traded funds (ETFs) and those funds may have internal management fees. Further, clients in IRA and other pension accounts may pay custodial fees to trust companies associated with brokerage firms. AFM does not receive any share of brokerage fees, pooled-investment management fees, or custodial fees. AFM does not place investment management clients in commission based investments or products such as those sold by broker-dealer firms.

6. Performance Based Fees

This section is not applicable.

7. Types of Clients.

Our clients include individuals, high net-worth individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities. We do not solicit business from any Government entity, nor do we offer investment advice to any Government clients.

8. Methods of Investment Analysis.

AFM generally provides investment management using equity securities (over-the-counter, exchange listed and foreign issue), corporate debt securities, bank certificates of deposit, municipal securities, U.S. Government Securities, investment company securities (mutual funds, closed-end funds, variable annuities and exchange traded funds), and option contracts.

When performing investment management services, AFM allocates assets according to their perceived risk and return for the next 6- to 18- month time horizon. We base our allocation on a variety of data including, but not limited to, the level and trend of interest rates, actions and policy of the Federal Reserve, the value of securities and security markets, the levels and trend of economic growth in various economies, the level and trend of inflation rates in various economies, and historical returns and volatility of various assets and asset classes. We may use margin. We generally do not engage in short sales, commodity trading, uncovered options, or option spreading strategies.

AFM utilizes perceived risk/reward relationships and historical data to determine investment allocation. However, other methods may also be used. Security analysis methods include fundamental, technical, and cyclical, and securities generally are held for long-term (greater than 1 year) and for short-term (less than one year). We may use short-term trading strategies and inverse ETF's to accommodate clients objectives such as capital preservation.

We use information that includes, but is not limited to, investment advisory services, research materials provided by others, corporate rating services, timing services, annual reports, and prospectuses.

AFM generally places client assets in diversified portfolios to reduce the risk of owning individual companies. Such diversification may not be successful in reducing the risk of loss, however, and may not reduce market risk in times of economic turmoil.

9. Disciplinary Information.

There are no legal or disciplinary events involving AFM or any of its management personnel or owners.

10. Other Financial Industry Activities and Affiliations.

David Hildreth owns a web-based life insurance agency, www.insureforlessmoney.com and acts as an agent who represents various life insurance companies. If an advisory client purchases an insurance product, David Hildreth's normal practice is to rebate the first year commission to the client as allowed under laws in the state of California. The commission rebate provides potential savings to Client on policies such as life insurance, disability insurance, health insurance, long-term care insurance, medicare-supplement policies, fixed annuities and equity-indexed annuities. Client is under no obligation to purchase insurance product through David Hildreth. Although the first-year commission received by David Hildreth is rebated to Client, there may exist a conflict of interest since the insurance policies

recommended by David Hildreth are commissionable products. David Hildreth may charge Client an hourly fee for placing insurance policy. Commission rebates are generally treated as taxable income to Client.

11. Personal Trading.

AFM does not act as principal in buying or selling securities. AFM and its management personnel may purchase and hold the same investments as clients, and at times, the interests of AFM's investment managers may correspond with our client's interests. AFM is not large enough to affect the prices of securities on the open market. The filling of client orders takes priority when we purchase securities for accounts of AFM's owners or related persons. AFM has authority, without advanced notice to the client, to determine the total amount of investments bought or sold. AFM does not have authority to determine the broker or dealer to be used as custodian for Client's account, or the commission rates paid.

12. Brokerage Practices

AFM may recommend a brokerage firm to a client for processing transactions on behalf of the client. Factors considered in making such recommendations are the financial strength of the brokerage firm, level of service, commission rates vs. other brokerage firms which provide similar services, and previous relationships between clients and brokerage firms. AFM may receive from such brokerage firms, research and services which are generally shared equally among all AFM clients. A client may pay brokerage commissions to such brokerage firms in excess of those which other brokerage firms charge for effecting the same transactions on behalf of a client. AFM does not receive, or share in, any commissions charged by brokerage firms. AFM does not compensate any person for client referrals.

13. Review of Accounts.

Accounts are reviewed on at least a quarterly basis when account valuation statements are generated. The review of accounts varies with the type of client objectives. AFM sends, at least quarterly, reports to investment management Client detailing 1. the account holdings and quarter-ending value, and 2. the quarterly management fee, how the fee is calculated, and whether the fee is payable by Client or is deducted directly from Client's account. Review of accounts is performed by managing member, David Hildreth.

14. Client Referrals

This section is not applicable

15. Custody and Discretionary Control.

AFM neither has custody of Client funds, nor has discretionary control of Client assets other than through an LTA . See section 16. for more details.

16. Investment Discretion

AFM, through an LTA, has discretion to make trades in Client's account. Client executes a Limited Trading authorization with the custodial firm of Client's choice, and custodial firm agrees to accept trading instructions from AFM. Client may instruct AFM to invest in only certain asset classes on behalf of client.

17. Voting Client Securities

AFM does not vote client securities. Client will receive proxies directly from Client's custodian, with instructions on how to vote their shares when applicable. AFM receives copies of Client's proxies and can help with any Client questions. Client can contact AFM by phone fax, or e-mail. See section 1. for more details.

18. Financial Information

AFM does not require prepayment of more than \$500 in advisory fees per client, six months or more in advance. See section 5. For more details. There are no other financial disclosures applicable to section 18. We know of no financial condition that is reasonably likely to impair our ability to meet our contractual commitments to clients.

19. Education and Business Background.

Our advisors (management personnel) are required to have a college degree and any applicable licenses and/or work related experience.

David Hildreth, born 1950, is a portfolio manager with the following education and experience:

Education: B.Sc. University of Wales, U.K. 1972
Ph.D. University of Wales, U.K. 1976

Postdoctoral Research fellowship, Dalhousie University, Nova Scotia, Canada, 1977

Background: Since 1980, David has been employed in the investment management and financial planning industries. In 1983, he passed the Internal Revenue Service's Enrolled Agents (E.A.) exam and was admitted to practice in 1984. In 1987, he successfully completed the three-year program for the Chartered Financial Analyst (C.F.A.) designation, an in-depth course on portfolio management, economics, and investment analysis. In this same year, he began as an instructor in Banking and Finance at De Anza Community College. In 1986, David established Altos Financial Planning Associates (which became AFM in 1993), a firm specializing in money management and tax planning. David also owns the insurance brokerage, www.insureforlessmoney.com, which is involved in the rebating of commissions to clients for insurance sales and services. David has held the following licenses: NASD Series 7, NASD Series 24, NASD Series 6, CA Life & Disability Insurance, Variable Annuities.

20. Termination.

Client may terminate the Agreement at any time by written notification to AFM at 4100 Moorpark Avenue, Suite 104, San Jose, CA 95117. The written notification must be executed by all parties to the agreement, and no other form of termination is acceptable. A refund of prepaid fees will be made based on 1. the prorated time in the quarter for which the agreement is in place, and 2. the reasonable time and effort, both before and after written notification is received, expended by AFM in termination procedures. If assets are withdrawn from an account without AFM's knowledge and before Client terminates the advisory agreement, the agreement automatically converts to an "other than asset management" agreement and Client will be responsible for any time expended by AFM billed at our rate of \$250 per hour.

Material Conflicts of interest

21. We believe that we have addressed all material conflicts of interest, under CCR section 260.238 (k), which could reasonably be expected to impair the rendering of unbiased and objective investment advice by AFM, its representatives, or employees.