



Howard Financial Services, Ltd.

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This Brochure provides information about the qualifications and business practices of Howard Financial Services, Ltd. If you have any questions about the contents of this Brochure, please contact us at (214) 346-0785 and/or by e-mail at info@howardfs.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.

Howard Financial Services, Ltd. 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 provide you with information about which you determine to hire or retain an Adviser.

Additional information about Howard Financial Services, Ltd. is available on the SEC's website at www.adviserinfo.sec.gov.



Item 2 – Material Changes

The following are the material changes that have been made to our Brochure since our last annual update (March 31, 2011)

Material Change #1

Item 10 - Other Financial Industry Activities and Affiliations – All of our owners are affiliated with the general partners of twenty nine limited partnerships, six of which were formed since our last annual update. We recommend these partnerships for certain clients. **This creates a potential conflict of interest.** The newly created partnerships are the following:

HFS Midway/NW Hwy LP

HFS Cap Design Portfolio LP

HFS Roaring Fork LP

HFS Legacy Oaks LP

HFS Scenic Park LP

HFS Credit Opportunity - I, LP

The above partnerships invest in various real estate development projects.

HFS BXP I LP invests in oil and gas properties

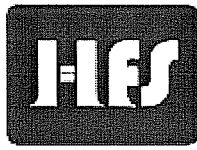
Material Change #2

HFS has added TD Ameritrade Institutional (TDA) to its choices of broker dealers to take custody of your assets and to effect trades for your accounts. TDA is a FINRA registered broker-dealer and member SIPC. We are independently owned and operated and not affiliated with TDA.



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Item 4 – Advisory Business

Howard Financial Services, Ltd. was founded in 1994 as a fee-only wealth management firm. We provide personalized financial planning and investment management to individuals, pensions and profit sharing plans, trusts, estates, charitable organizations and small businesses. We do not sell, nor are we affiliated with any firms that sell, annuities, insurance, mutual funds, or other commissioned products. No commissions or finder's fees in any form are accepted.

Advice is provided through consultations with you and may include: determination of financial objectives, identification of financial problems, cash flow management, tax planning, insurance review and needs analysis, investment review and /or management, education funding, retirement planning and estate planning. In addition, we help small businesses plan for succession, structure employee benefits, and consult with them on merger and acquisition transactions.

A financial plan is designed to help you define and achieve your financial goals. The plan may include, but is not limited to: a net worth statement; a cash flow statement; a review of investment accounts, including reviewing asset allocation and providing repositioning recommendations; strategic tax planning; a review of retirement accounts and plans including recommendations; a review of insurance policies and recommendations for changes, if necessary; cash flow projections for one or more retirement scenarios; estate planning review and recommendations; and education planning with funding recommendations.

Investment advice is provided as part of a financial plan. Implementation of the recommendations is at your discretion.

Most clients hire us to manage their investments and be responsible for investment implementation and oversight. With this service a Personal Investment Policy Statement is prepared for you that documents aspects of your financial affairs, including those of your children and if necessary your parents. Realistic and measurable goals are set and objectives to reach those goals are defined. Restrictions may also be imposed on investing in certain securities or types of securities. As your goals and objectives change over time, suggested changes are made and implemented on an ongoing basis.

Principal owners of Howard Financial Services, Ltd. are James N. Howard along with John T. Howard, Stephen J. Howard and Amy Howard Parker as trustees of The Thomas 1991 Investment Trust, The James 1991 Investment Trust and The AEH 1991 Investment Trust, respectively.



As of December 31, 2011, Howard Financial Services, Ltd managed approximately \$786 million in assets. Approximately \$494 million is managed on a discretionary basis, and \$292 million is managed on a non-discretionary basis.

Item 5 – Fees and Compensation

We base our fees on a percentage of assets under management, hourly charges, and fixed fees. Fees are billed in arrears and are negotiable.

Financial plans are priced according to the degree of complexity associated with your situation and are based on the hourly rates of the professionals working on your engagement. The scope of work is defined and an estimated cost for the preparation of a financial plan is provided prior to the start of the engagement. Fees are billed monthly as work progresses.

The scope of work and fee for investment management services are provided in writing in our Investment Advisory Agreement prior to the start of the engagement. The fee for ongoing investment advice is based on a percentage of investments under management according to the following schedule:

1.00% on the first \$2,000,000;

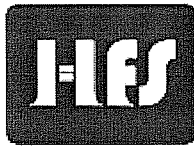
0.75% from \$2,000,001 to \$4,000,000; and

0.50% on the assets above \$4,000,000

The minimum annual fee is \$5,000. Current client relationships may exist where the fees are higher or lower than the fee schedule above.

Management fees are calculated and paid quarterly and are prorated for capital contributions and withdrawals made during the applicable calendar quarter. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Most clients authorize us to directly debit fees from their accounts; however, you can be billed directly as well.

Our fees are exclusive of brokerage commissions, transactions fees, and other related costs and expenses which shall be incurred by you. You may incur certain charges imposed by Custodians, brokers, third party investments and other third parties such as fees charged by managers, custodial fees, transfer taxes, odd-lot differentials, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management



fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to our fee. We do not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that we consider in selecting or recommending broker-dealers and determining the reasonableness of their compensation.

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

We do not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). Certain affiliates of ours may be compensated with performance based fees after a minimum threshold return is delivered to the investor. **This creates a conflict of interest** because the affiliates may earn higher fees than would be earned under our investment management fee structure. Clients investing with the affiliates are provided documentation of the fee structure through separate offering materials and subscription documents. Investments containing performance fees are only offered to sophisticated clients. See Item 10, "Other Financial Industry Activities and Affiliations," for further discussion.

Item 7 – Types of Clients

We generally provide investment advice to individuals, pension and profit-sharing plans, trusts, estates, charitable organizations, and related partnerships investing in commercial mortgage loans, real estate, and tax liens.

The minimum account size is \$500,000 of assets under management, which equates to an annual fee of \$5,000.

We have the discretion to waive the account minimum.

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

Our investment management clients are exposed to a variety of investments including but not limited to: stocks, bonds, real estate (equity and debt), mutual funds, commodities, convertible bonds, master limited partnerships, international oriented investments and private investments with a mixture of underlying investment strategies. All investing involves risk including the risk of loss that you should be prepared to experience. We attempt to structure portfolios in such a way as to minimize risks; however no guarantees can be made.



Security analysis methods may include: fundamental analysis, technical analysis, statistical analysis, comparative analysis, macro analysis and other quantitative and qualitative methods. The main sources of information for analysis include: financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, peer networks, corporate rating services, annual reports, prospectuses, SEC filings, company press releases and third party data vendors.

The primary investment strategy used on accounts is strategic asset allocation. The three main investment categories of the strategic asset allocation are equities, fixed income and alternatives.

Equity investments are accessed primarily through the use of no-load mutual funds and to a lesser degree separately managed accounts, private investments when appropriate and individual securities. Material risks of equity investments include:

- **Market Risk:** The price of a security 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 events may trigger market events.
- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, rising interest rates may have a negative effect on a security's value.
- **Inflation Risk:** When any type of inflation is present, a dollar today will buy more than a dollar next year, 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 currency of the investment's originating country. This is also referred to as exchange rate risk.
- **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. Investments in private investments are generally considered to be illiquid.



- **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.
- **Tax Risk:** The risk a taxing authority will change tax laws that will negatively affect an investment.
- **Timing Risk:** The risk that factors cause you to buy or sell an investment at an inappropriate time.

Fixed income investments are accessed through the use of no-load mutual funds, separately managed accounts, individual securities and private investments when appropriate. Risks of investing in fixed income strategies include the same risks previously discussed with equity investments. Other types of risk associated with fixed income strategies include:

- **Credit/Default Risk:** The risk that a borrower will be unable to make a payment of interest or principal in a timely manner.
- **Reinvestment Risk:** The risk that cash flow will not be able to reinvest at the same rate as the existing investments.
- **Prepayment Risk:** The risk that a security is paid off prior to maturity and the proceeds will have to be invested in an uncertain environment.

We have and will recommend the use of private fixed income investments to complement public fixed income investments when appropriate. One strategy involves the purchase of loan participations in privately originated loans secured by real estate. Risks inherent with this strategy include all those previously discussed including additional risks due to their private nature. Clients involved with these investments should refer to the offering documents for a more complete discussion of the associated risks.

We think of alternatives as investments that tend to display low correlation to traditional equity and fixed income investments over the long-term. They are included in portfolios to provide diversification and return opportunities. The nature of alternative investments include: mutual funds, individual securities and private investments. The underlying investment types may include investments such as preferred stock, convertible bonds, master limited partnerships, tax liens, commodities and real estate. All of the risks previously discussed with equities and fixed income investments are inherent with alternative investments as well.

We have and will recommend investments in private real estate transactions when appropriate. Real estate investments carry a unique set of risks that need to be considered



prior to investment. Potential risks include interest rate, market, liquidity, development and default to name a few. Clients involved with these investments should refer to the offering documents for a more complete discussion of the associated risks.

No investment is without risk. The risk of loss is real and needs to be adequately considered prior to making any investment. Past performance is no guarantee of future results.

Item 9 – Disciplinary Information

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

Item 10 – Other Financial Industry Activities and Affiliations

James N. Howard is a shareholder in the accounting firm of Howard & Co., LLP, which from time to time will provide accounting services, such as tax preparation, tax planning, and business consulting for the clients of Howard Financial Services, Ltd. The accounting firm will charge it own fees directly to you, should you choose to use their services. We prefer to refer our clients' accounting needs to Howard & Co., LLP, **which creates a potential conflict of interest**. You are under no obligation to use the services of Howard & Co., LLP. We will work with the accounting firm of your choice.

All of our owners are affiliated with the general partners of the following twenty six limited partnerships. We recommend these partnerships as investment for certain clients. **This creates a potential conflict of interest.**

Howard Mortgage Participation Fund LP
HMPF Taxable LP
HMPF Enhanced QP LP
HMPF Note Fund LP

HMPF 2009 LP
HMPF 2010-I Fund LP

The above partnerships invest in various participations of Real Estate Mortgage Loans secured by first or second liens and real estate equity investments.

HFS Phoenix 05 Fund LP
HFS Phoenix 06 Fund LP
HFS Phoenix 07 Fund LP
HFS Phoenix 08 Fund LP

HFS Phoenix 09 Fund LP
HFS Phoenix 10 Fund LP
HFS Phoenix 11 Fund LP
HFS Denver Residential LP



HFS Midway/NW Hwy LP
HFS Vintage Royale LP
HFS Maple Crossing LP
HFS Cap Design Portfolio LP
HFS Credit Opportunity – I LP

HFS Roaring Fork LP
HFS Crabapple Crossroads LP
HFS Live Oak LP
HFS Scenic Park LP
HFS Legacy Oaks LP

The above partnerships invest in various real estate development projects throughout the U.S.

HFS Multi-Strategy Fund LP invests in other investment funds, which in turn invests in hedge funds and similar investment vehicles.

HFS Land Fund LP and HFS Land Fund II LP invest in raw land throughout the U.S.

HFS Tax Lien Fund 2010 invests in Florida real estate property tax liens.

HFS BXP I LP invests in oil and gas properties.

The general partners of these partnerships are reimbursed for administrative expenses and receive an allocation of revenue equal to 1% to 1.5% of the limited partnerships assets. Certain funds may also pay the general partner a carried interest in the projects after the achievement of defined performance hurdles.

We also receive a fixed monthly fee from each of the entities for advisory services rendered. The fees range from \$500 to \$5,000 per month.

The above partnerships are only recommended to investors with a certain level of investment sophistication and who meet certain net worth or annual income requirements. All potential investors are provided offering documents (which may include Private Placement Memorandum, Limited Partnership Agreement, investment summary, etc.), which explains risks and conflicts of interest in detail.

Item 11 – Code of Ethics

We have adopted a Code of Ethics for all employees of the firm describing its high standard of business conduct, and fiduciary duty to you. The Code of Ethics includes provisions relating to the confidentiality of your information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All of our personnel must acknowledge the terms of the Code of Ethics annually, or as amended.



We anticipate that in appropriate circumstances and consistent with your investment objectives, we may recommend to you, the purchase or sale of partnership interests in which our affiliates, directly or indirectly, have a position of interest. These partnerships are described more fully in item 10, "Other Financial Industry Activities and Affiliations." Our employees, directors, and partners may also invest in these same limited partnerships. Because of the nature of limited partnership investing, these investments by employees, partners and directors do not influence pricing and do not create a conflict of interest.

Subject to satisfying this policy and applicable laws, our partners, directors and employees may trade for their own accounts in securities which are recommended to and/or purchased for you. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees will not interfere with (i) making decisions in the best interest of you and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code, certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with your best interest. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in certain 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. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between us and you.

You may request a copy of the firm's Code of Ethics by contacting our administrative assistant, Terry Ishmael at (214) 346-0762.

Item 12 – Brokerage Practices

We may require that you establish brokerage accounts with the Schwab Adviser Services division of Charles Schwab & Co., Inc., "Schwab", or TD Ameritrade Institutional, a subsidiary of TD Ameritrade Holding Corporation, (TDA), both FINRA registered broker-dealers, members SIPC, to maintain custody of your assets and to effect trades for your accounts. We are independently owned and operated and not affiliated with any broker dealer.

Schwab Adviser Services and TD Ameritrade (the Custodians) were chosen to custody assets based upon proven integrity and financial responsibility of the firms and the best execution practices of orders at reasonable transaction costs. Neither custodian may have the lowest transaction costs in the industry, but we feel they are reasonable in light of



additional services they provide for us as well as you. We do not receive fees or commissions from any custodian.

The Custodians provide us with access to their institutional trading and custody services, which are typically not available to retail investors. These services generally are available to independent investment advisers on an unsolicited basis, and at no charge to them. These services are not contingent upon committing to the Custodians any specific amount of business (assets in custody or trading commissions). The Custodians' brokerage services include the execution of securities transactions, custody, research and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For accounts maintained in their custody, the Custodians generally do not charge separately for custody services but are compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through them or that settle into their accounts.

The Custodians also make available to us other products and services that benefit us, but may not directly benefit our clients' accounts. Many of these products and services may be used to service all or some substantial number of our accounts, including accounts not maintained at either custodian.

Custodian products and services that assist us in managing and administering clients' accounts include software and other technology that (i) provide access to account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of our fees from our clients' accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

Custodians also offer other services intended to help manage and further develop our business enterprise. These services may include (i) compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. They may make available, arrange and/or pay third-party vendors for these types of services rendered to us. They may discount or waive fees they 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 us. They may also provide other benefits such as educational events or occasional business entertainment for our personnel. In evaluating whether to



recommend or require that you custody your assets at Schwab or TDA, we may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors we consider and not solely on the nature, cost or quality of custody and brokerage services provided by the Custodians, which may create a potential conflict of interest.

Item 13 – Review of Accounts

Our investment management services provide ongoing monitoring of your accounts under our management by your financial adviser. The investments are managed in light of current market conditions, your goals, objectives, and risk tolerances. The financial advisers will authorize trades when necessary within parameters set by the investment research team and in compliance with your Investment Policy Statement.

You will receive monthly statements directly from the custodian. The statements list the portfolio holdings held by the custodian, priced at month end, and transactions that occurred during the month. We provide you with a quarterly performance report showing portfolio holdings (priced at quarter end for public securities and estimated values for private securities) and portfolio performance over varying time periods as compared to various market indexes. You are encouraged to compare your custodial reports with the quarterly reports received from us.

If you have chosen to receive investment advice on an hourly basis, the timing of a periodic investment review is up to you. Because we do not manage these accounts on a daily basis, we are only able to monitor the accounts when you provide us with the investment details and request us to review your holdings. This review will be performed by a financial adviser who may be assisted by one or more members of the investment research team.

Item 14 – Client Referrals and Other Compensation

We receive referrals from current clients, estate planning attorneys, accountants, employees, personal friends of employees and other similar sources. We are a member of the National Association of Personal Financial Advisers (NAPFA), which is an association of fee only financial planners. NAPFA has a referral program from which we also receive referrals for prospective clients. We do not compensate referring parties for the referrals.

We do not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.



Item 15 – Custody

We do not take custody of your assets with the exception of assets invested in the HFS private partnerships (see item 10, Other Financial Industry Activities and Affiliations for a full list of these HFS partnerships). These private partnerships are audited annually and beginning in 2010 by a Public Company Accounting Oversight Board (PCAOB) registered and inspected accounting firm. The audit reports are distributed to all partners of these partnerships upon completion.

From time to time, we may advise you to invest in other non-affiliated private investments. These investments provide statements directly to you.

Assets, with the exception of private investments mentioned above, are held at qualified Custodians that directly provide you with statements at least quarterly. These statements are delivered to the address of record which can be a physical or electronic (email) address. Partners in the HFS private partnerships receive investment updates at least quarterly from the general partner of each partnership.

Upon receipt of your quarterly statement from us (as described in item 13, Review of Accounts), we urge you to carefully review such statements and compare them to the custodial account statements provided by your broker. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Item 16 – Investment Discretion

We typically receive discretionary investment authority at the outset of an advisory relationship. The discretionary authority is granted with the execution of the Investment Advisory Agreement. The discretionary authority allows us to make public investments for you. In all cases however, such discretion is exercised in a manner consistent with your stated investment objectives. When selecting securities and determining amounts, we observe the investment policies, limitations and restrictions that you may request in your written Investment Policy Statement as discussed previously in Item 4, Advisory Business. The investments in private securities are governed by a separate agreement and subscription documents.

Item 17 – Voting Client Securities

You will receive proxy or other solicitations directly from the custodian. As a matter of firm policy and practice, we do not have any authority to and do not vote proxies for you.



You retain the responsibility for receiving and voting proxies for any and all securities maintained in your portfolios. You are welcome to contact us with questions about a particular solicitation.

Item 18 – Financial Information

We do not have any financial impairment that will preclude the firm from meeting contractual commitments to you and have not been the subject of a bankruptcy proceeding.

A balance sheet is not required to be provided because we do not serve as a custodian for client funds or securities, and do not require prepayment of fees of more than \$1,200 per client, and six months or more in advance.