

## Item 1. Cover Page

<b>Name of Registered Investment Adviser:</b>  <b>PARADIGM FINANCIAL ADVISORS, LLC</b>	
<b>Address:</b>  12231 Manchester Road Des Peres, MO 63131	<b>Compliance Officer:</b>  Stacey L. Cheek <a href="mailto:scheek@pfaclient.com">scheek@pfaclient.com</a>
<b>Phone:</b>  314-966-3400	<b>Website:</b>  <a href="http://www.pfaclient.com">www.pfaclient.com</a>

This brochure provides information about the qualifications and business practices of Paradigm Financial Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at 314-966-3400. 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. Registration with the SEC does not imply a certain level of skill or training.

Additional information about Paradigm Financial Advisors, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2. MATERIAL CHANGES SUMMARY**

This brochure is required to be updated at least annually or sooner when material changes to our business take place. For your convenience we have identified and discussed below all material changes that have taken place since our last annual update of this brochure on **December 15, 2011**.

- On December 30, 2011, PFA went through a change in control. James T. Reding became 100% owner of PFA.
- PFA now allows options trading.
- PFA now custodies at Schwab Institutional and TD Ameritrade Institutional.
- Investment Advisory Agreement formerly known as an IAM or IAS agreement. PFA is no longer utilizing an IAS agreement.
- Outside Assets were formerly managed under an ICM agreement. These assets are now included under the standard Investment Advisory Agreement but with a separate fee schedule.
- Dropped 1.75% on Investment Advisory fee schedule so now \$1 to \$450,000 is billed at 1.5%. This also corresponds to the Outside Assets fee schedule which is one-half the investment advisory fee schedule.
- Quarterly fees will now be calculated by multiplying the fair market value of the account by the annual fee rate and dividing by four. They will no longer be adjusted for capital flows greater than \$5,000. Fees will be due at the beginning of each quarter and not necessarily the same day each quarter.
- PFA imposes a minimum dollar asset value for opening a client account of \$500,000. All other minimums have been removed.
- Mr. Reding anticipates terminating his other investment advisor business and merging those clients into PFA by March 30, 2012.

### **Item 3. Table of Contents**

<b><u>Item Number</u></b>	<b><u>Item</u></b>	<b><u>Page</u></b>
<b>4</b>	<b>Advisory Business</b>	<b>4</b>
<b>5</b>	<b>Fees and Compensation</b>	<b>6</b>
5A	Advisory Agreement Fee Schedules	6
5B	Other Fees & Compensation	7
<b>6</b>	<b>Performance Based Fees &amp; Side by Side Management</b>	<b>8</b>
<b>7</b>	<b>Types of Clients and Minimum Requirements</b>	<b>8</b>
<b>8</b>	<b>Method of Analysis, Investment Strategies and Risk of Loss</b>	<b>8</b>
<b>9</b>	<b>Disciplinary Information</b>	<b>9</b>
<b>10</b>	<b>Other Financial Industry Activities and Affiliations</b>	<b>9</b>
<b>11</b>	<b>Code of Ethics, Interest in Client Transactions and Personal Trading</b>	<b>10</b>
<b>12</b>	<b>Brokerage Practices</b>	<b>10</b>
12A	Selecting a Broker-Dealer/Custodian	10
12B	Research and Other Soft Dollar Benefits	10
12C	Directed Brokerage	11
<b>13</b>	<b>Review of Accounts</b>	<b>13</b>
13A	Frequency and Triggering Factors	13
13B	Client Reports	13
<b>14</b>	<b>Client Referrals and Other Compensation</b>	<b>13</b>
<b>15</b>	<b>Custody</b>	<b>14</b>
<b>16</b>	<b>Investment Discretion</b>	<b>14</b>
<b>17</b>	<b>Voting Client Securities</b>	<b>15</b>
<b>18</b>	<b>Financial Information</b>	<b>16</b>
<b>Miscellaneous</b>		<b>16</b>
	Anti-Money Laundering	<b>16</b>
	Business Continuity Plan	<b>16</b>

## Item 4. Advisory Business

Paradigm Financial Advisors, LLC ("PFA") has been operating as an investment advisory firm since 1997. On December 30, 2011, James T. Reding became the sole principal owner. Robert Spindel will remain an investment advisory representative. Brad Combs became an investment advisory representative in May 2011. Therefore, Mr. Reding, Mr. Spindel and Mr. Combs are the only investment advisory representatives of PFA.

PFA was formed for the purpose of creating a federally-registered investment advisory firm to provide investment advisory and monitoring services to high net worth and financially sophisticated clients, along with comprehensive financial planning and advisory services. All services rendered are provided on a "fee only" basis.

PFA provides continuous investment supervisory services, manages investment advisory accounts not involving investment supervisory services, furnishes investment advice through consultations, and furnishes advice to clients on matters not involving securities. These services include financial planning, portfolio management for individuals and small businesses, and pension consulting services.

PFA offers advice limited to the following types of investments: Equity Securities, Corporate Debt Securities, Certificates of Deposit, Municipal Securities, Mutual Fund, Exchange Traded Funds, and other Investment Company Securities including Variable Life Insurance, Variable Annuities, U.S. Government Securities, Options Contracts and Partnership Investing, including those investing in equipment leasing and commercial real estate that have been approved for federal income tax credits.

PFA's primary approach for clients is objective professional advice with recommendations geared to individual life goals, current and future resources and personal constraints. By putting goal achievement ahead of investment performance, the intended result is a wealth management program dedicated to the client, instead of solely investment result-oriented advice. PFA customizes asset allocation and financial planning strategies for clients with the goal of maximizing our clients' financial quality of life.

With respect to both PFA's financial planning and advisory services, our services typically involve the creation of an Investment Policy Statement, which essentially serves the same purpose as a business plan. It provides a long-term vision of what is to be achieved and articulates the strategy that will be used to pursue the personal goals of the client. The development of and monitoring of such a plan is an ongoing activity. It provides the criteria for making appropriate changes, as well as the discipline or structure for realistically pursuing a client's specific objectives. PFA reviews financial data and personal goals and objectives, such as financial, estate, tax and charitable planning, provided by the client to determine the appropriate recommendations suitable for the client's wealth management program, retirement income and investment strategy. The client may also impose restrictions on investing in certain securities or types of securities.

For smaller accounts that we manage as a favor to clients, such as client employee SEP plans, an Investment Policy Statement may not be created. Investment recommendations are made based upon the client's risk tolerance level as determined from their client profile questionnaire.

More specific information regarding our services is as follows:

1. **INVESTMENT ADVISORY AGREEMENT:** PFA provides continuous investment supervisory services for client assets that are generally held in accounts with Schwab Institutional or TD Ameritrade Institutional or occasionally with another custodian. Schwab Institutional is a division of Schwab & Co. For Accounts held at TD Ameritrade Institutional, clearing of securities transactions is handled through TD Ameritrade Clearing, Inc.

Under our advisory agreement, assets are held with one or more broker accounts selected by the client for custody and execution service. PFA is independent and unaffiliated with any broker-dealer. The clients work with PFA to authorize and direct PFA to purchase and sell stocks, bonds, mutual funds, exchange traded funds, and other equity securities consistent with the investment objectives of the client in these accounts.

PFA also provides continuous investment supervisory services for assets held outside of Schwab Institutional or TD Ameritrade Institutional to include and coordinate the client investment assets (wherever held) with the client's overall family wealth management plans. Such assets may include 401(k) accounts, IRA's, deferred compensation plans and brokerage accounts.

Client will be asked to sign a Pin Authorization Form, authorizing Advisor to log into Client's online account and purchase, sell, exchange or otherwise trade in securities on behalf of client. If online access is not available or if Client chooses not to allow Advisor to have online access to client account, Client is responsible for providing PFA with reasonably timely and accurate information (copies of appropriate statements and confirmations of individually held securities/assets) and client is responsible for the actual execution/implementation (buy/sell/etc.) of any recommendations made by PFA with respect to these outside assets listed in their Outside Assets Advisory Agreement. Further, PFA assumes no responsibility for Client's failure to follow recommendations made by PFA.

2. **FINANCIAL PLANNING:** PFA Clients may choose to receive ongoing COMPREHENSIVE FINANCIAL PLANNING, described as follows:

1. **PERSONALIZED INVESTMENT PLANNING:** development of investment policy statement or statement of specific investment objectives, review of client goals and objectives, determination of an appropriate asset allocation, selection of individual securities or specific mutual funds, and exchange traded funds, monitoring of performance, and rebalancing recommendations for portfolio as necessary.
2. **FINANCIAL PLANNING AND FORECASTING:** projected future values, inflation adjusted income, and tax analysis.
3. **IMPLEMENTATION PLAN:** sources and use of funds and time horizons.
4. **MONITORING:** consolidated detailed reporting and evaluation on quarterly basis.
5. **COORDINATION WITH OVERALL FINANCIAL PLANS:** cash flow, budgeting, tax, retirement income, education funding, insurance sufficiency, estate and legacy planning, development, implementation and execution of stock option strategies, development of tax credit strategies, business advisory and consulting services for existing clients or new clients referred to PFA by others, and advice on securities.

PFA provides clients these comprehensive services to help clients develop and remain “on track” with their long term plans. Clients should seek outside counsel with their Attorney and/or CPA on legal and tax issues prior to implementing any recommendations we make. We will work closely with your attorney, CPA and any other advisor as may be necessary to implement the conclusions you reach.

## Assets Under Management

PFA provides investment advice to clients on either a non-discretionary or a discretionary basis. As of December 31, 2011, PFA's total assets under management are as follows:

Discretionary Clients = \$18,062,215  
 Non-Discretionary Clients = \$90,804,179  
 Total = \$108,866,394

## Item 5. Fees and Compensation

### A. Advisory Agreement Fee Schedules

PFA has two (2) separate fee schedules depending upon where assets are held:

1. **FOR ASSETS HELD AT SCHWAB OR TD AMERITRADE:** PFA charges an annual fee, which is a percentage of client's assets under management, according to the following fee schedule:

<u>Assets Under Management</u>	<u>Fee</u>
\$1 to \$450,000 . . . . .	1.50%
\$450,001 to \$700,000 . . . . .	1.25%
\$700,001 to \$1,000,000 . . . . .	1.00%
\$1,000,001 to \$1,500,000. . . . .	0.85%
\$1,500,001 And Over . . . . .	0.75%

These fees charged by Advisor may be negotiated and vary among clients for similar services.

2. **FOR ASSETS HELD OUTSIDE OF PRIMARY CUSTODIANS:** PFA charges an annual fee, which is a percentage of client's assets under management, according to the following fee schedule:

<u>Assets Under Management</u>	<u>Fee</u>
\$1 to \$450,000 . . . . .	0.75%
\$450,001 to \$700,000 . . . . .	0.625%
\$700,001 and Over . . . . .	0.50%

Assets from Schwab or TD Ameritrade may be combined with outside assets to determine applicable fee level. These fees charged by Advisor may be negotiated and vary among clients for similar services.

**Generally.** PFA enters into an Investment Advisory Service Agreement with each advisory client calling for the payment of fees payable quarterly in advance based upon the fair market value of the

account on the last day of the preceding calendar quarter expressed as a percentage of value. PFA's fees do not include custodial fees or securities transaction fees, if any, charged by client's custodian. Mutual funds in which client's assets may be invested charge additional advisory fees and other expenses, as described in each fund's prospectus. ***See additional information under Item 12.***

Fees charged by Advisor may be negotiated and vary among clients for similar services. The fees shall be due and payable, one quarter in advance, at the beginning of each quarter, based on the fair market value, including accrued interest, of the account as of the last business day of the prior quarter. The fee is calculated by multiplying the fair market value of the account by the annual fee rate and dividing by four. When management services commence on anything but the first day of such a period, the fee for the opening period shall be prorated by the number of days of service divided by total period days and based on the fair market value of the portfolio under management on or about the day the account is received. Fee calculation is based on the actual market value of the securities, not reduced by any margin loans.

Remittance in the full amount of the management fees shall be collected by the custodian of Client's account by debiting Client's accounts and liquidating securities selected by the Advisor, if necessary. Multiple client accounts (family sponsored) may be linked and aggregated to Client's other advisory accounts, for determining applicable fee level. Client authorizes and directs said custodian to pay to Advisor its management fees. If Client has more than one account, fees may be aggregated and deducted from any of the Client's accounts. In very limited circumstances, Client may send in a check payable to Paradigm Financial Advisors, LLC for their management fees rather than deducting from their account(s). Client is responsible for verifying the accuracy of the fee calculation, as the custodian will not. The agreement provides for a prorated refund of fees paid in advance if the agreement terminates prior to the end of a quarter, with said fee being returned to the client within 30 days in a normal course of business.

This Agreement can be terminated by either party at any time upon five days written notice. This Agreement automatically will terminate in the event of its assignment, unless the Client consents to such assignment. In the event of a change in control or ownership of the Advisor that would constitute an "assignment" under the Investment Advisers Act of 1940, as amended, Advisor will provide written notice to Client and Client will be deemed to consent to the assignment absent written notice of termination of this Agreement by Client within 30 days from the date of such notice.

## **B. Other Fees and Compensation**

Prospective comprehensive financial planning clients receive from PFA a description of the various levels of services they will be provided. PFA and the client sign a Financial Planning Agreement outlining the basic terms of the agreement and fee quoted.

Comprehensive Financial Planning: The standard financial planning retainer fee is \$3,500 per year, but this fee may be negotiated to a higher or lower amount, based on the individual financial planning needs of each client. Fees can be based on either an hourly staff rate of \$115/hour or a retainer which reflects the scope, degree of complexity and length of time involved in each unique engagement.

Financial Planning fees are refundable to client if client is not completely satisfied with the planning services provided.

## **Item 6. Performance Based Fees and Side by Side Management**

PFA does not charge any performance based fees.

## **Item 7. Types of Clients and Minimum Requirements**

PFA generally provides investment advice to individuals, high net worth individuals, pension and profit sharing plans, trusts, estates, corporations and/or business entities.

PFA does have certain minimum thresholds that have been established to allow PFA to provide the high level of personal services and attention which we believe our clients deserve. PFA imposes a minimum dollar asset value for opening a client account of \$500,000.

All minimum account size amounts may be lowered by PFA in its discretion. When a PFA client asks us to accept someone in their family or company that is important to them but does not meet our minimum requirements, PFA may waive its minimums.

PFA will typically honor a request from an existing client to "link" an employee/associate or family member of the client (referred to as a "family-sponsored" account) to their accounts for the purpose of determining account minimums and/or the applicable fee level.

## **Item 8. Method of Analysis, Investment Strategies and Risk of Loss**

PFA's method of security analysis is generally fundamental, based upon sources of information from research materials, corporate rating services, financial newspapers and magazines, annual reports, prospectuses, filings with the SEC and company press releases.

The investment strategies used to implement investment advice given to clients include long term purchases, short term purchases, and margin transactions.

**Equity Market Risk.** The prices of equity securities held in your portfolio (or underlying funds) may decline in response to certain events taking place around the world, including those directly involving the companies whose securities you own; conditions affecting the general economy; overall market changes; local, regional or global, political, social or economic instability; and currency, interest rate and commodity price fluctuations. Equity securities may involve large price swings and potential for loss. Clients should have a long-term perspective and be able to tolerate potentially sharp declines in value.

**Management Risk.** There is no guarantee of your portfolio's performance or that your portfolio will meet its objective. The market value of your investments may decline and you may suffer investment loss. PFA's investment strategies may fail to produce the intended results. If PFA's expectations for a particular asset class are not realized in the expected timeframe, your overall performance may suffer.



**Municipal Securities Risk.** Municipal securities rely on the creditworthiness or revenue production of their issuers or auxiliary credit enhancement features. Municipal securities may be related in such a way that political, economic or business developments affecting one obligation would affect the others. Tax authorities are paying increased attention as to whether interest on municipal obligations is tax exempt, and we cannot assure you that a tax authority will not successfully challenge the exemption of a bond held in your portfolio. The ongoing issues facing the national economy are negatively impacting the economic performance of many issuers of municipal securities, and may increase the likelihood that issuers of securities in which you may invest may be unable to meet their obligations.

**Investment Company Securities Risk.** With respect to investments in other investment companies (including ETFs, mutual funds, and money market funds), you will indirectly bear any fees and expenses charged by the underlying funds in addition to PFA's direct fees and expenses. Therefore, you could incur higher expenses, many of which may be duplicative. In addition, you may be affected by losses of the underlying funds and the level of risk arising from the investment practices of the underlying funds (such as the use of leverage by the funds). An ETF's shares may trade at a market price above or below their net asset value, and an active trading market for an ETF's shares may not develop or be maintained.

**Government Securities Risk.** Not all U.S. government securities are backed by the full faith and credit of the U.S. government. It is possible that the U.S. government would not provide financial support to certain of its agencies or instrumentalities if it is not required to do so by law. If a U.S. government agency or instrumentality in which you (or an underlying fund) invest defaults and the U.S. government does not stand behind the obligation, the value or yield of your portfolio could fall.

**Debt Securities Risk.** When you invest in fixed income securities or in underlying funds that own fixed income securities, the value of your investment and the return of such underlying funds will fluctuate with changes in interest rates. Inflation-indexed bonds decline in value when real interest rates rise. Long-term bonds are generally more sensitive to interest rate changes than short-term bonds. Issuers of fixed-income securities may default on interest and principal payments. Generally, securities with lower debt ratings have greater credit risk. The issuer of a debt security may fail to pay interest or principal when due.

PFA believes its buy and hold strategy for mutual funds reduces volatility over longer investment time horizons, but mutual funds also face risks based on the investments they hold. Asset allocation and diversification may help to reduce risk but may not protect a portfolio from overall market decline. Mutual funds are subject to internal fees and expenses which are charged against the assets of the mutual fund. These internal charges are an inherent expense of client's account and do not usually occur when purchasing individual securities.

## **Item 9. Disciplinary Information**

In its history, neither PFA, nor any of its investment advisory representatives, have been the subject of any kind of legal or disciplinary event. This includes criminal or civil actions, administrative proceedings, or self-regulatory organization proceedings.

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

Mr. Reding is the sole member and Principal of Paradigm Wealth Advisors, LLC (PWA), a federally-registered investment advisor. This firm plans to merge into PFA and then terminate as of March 30, 2012. PWA clients will sign a PFA advisory agreement.

As a licensed attorney, Mr. Reding also maintains an estate and tax law practice. Mr. Reding spends less than 10% of his time on this other activity.

## **Item 11. Code of Ethics, Interest in Client Transactions and Personal Trading**

Related persons of PFA may buy and sell securities they also recommend to clients. Client transactions must be executed before a transaction in the same security by a related person of PFA. Further, such related persons will not compete with PFA's clients in connection with such securities transactions. Clients may have investment strategies different from related persons. PFA adopts and follows policies and procedures regarding securities transactions of its related persons commensurate with its activities and duties to clients. PFA has adopted policies and procedures based on the principle that PFA and its employees owe a fiduciary duty to clients.

PFA has established, maintains and enforces a written Code of Ethics pursuant to Rule 204A-1 under the standards of conduct required of all associated persons to protect the best interest of our clients. The Code of Ethics requires advisory personnel to avoid activities or interests that might interfere with making decisions in the best interests of PFA's clients. In addition, it requires its advisory personnel or supervised persons to submit periodic reports of securities transactions to PFA's CCO for review and to pre-clear transactions in certain securities. In addition, each person subject to these requirements is required to report all violations of which such person becomes aware to the Chief Compliance Officer. PFA has also adopted an insider trading policy that prohibits its employees from trading on material, non-public information. PFA will provide a copy of its Code of Ethics and/or insider trading policy, free of charge, upon the written or oral request of any current or prospective client.

## **Item 12. Brokerage Practices**

### **A. Selecting a Broker-Dealer/Custodian**

PFA may recommend that clients use Schwab Institutional or TD Ameritrade Institutional Services as their broker-dealer/custodian. However the selection of a custodian or brokerage firm is at the client's option.

At least annually, PFA conducts a review of its recommended broker-dealer(s)/custodian(s). PFA's review includes, but is not limited to: Protection of Client's Interest, Full Range of Quality of Service, Overall Fees and Account Costs, and Execution Capability and Quality. As part of this periodic review, PFA considers the service and cost of other providers to determine whether any change should be made. The client should be aware that lower commissions or better execution may be able to be achieved elsewhere. Also considered, Schwab and TD Ameritrade provide PFA with ongoing assurance that it provides best execution.

## **B. Research and Other Soft Dollar Benefits**

PFA does not recommend or select certain custodians, brokers or dealers based on the value of products, research or services received. If products, research or services are received, they are received as part of the execution process or custodial relationship.

PFA participates in investment institutional advisory programs offered by Schwab Institutional and TD Ameritrade Institutional and, as a result, PFA receives certain benefits. Schwab Institutional and TD Ameritrade provide PFA with access to its institutional trading and custody services, which are typically not available to Schwab or TD Ameritrade retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them. These services are not contingent upon PFA committing to Schwab or TD Ameritrade any specific amount of business (assets in custody or trading commissions). Schwab and TD Ameritrade's 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 PFA client accounts custodied at Schwab or TD Ameritrade, Schwab and TD Ameritrade generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through Schwab or TD Ameritrade or that settle into the accounts.

Schwab Institutional and TD Ameritrade also make available to PFA other products and services that benefit PFA but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of PFA's accounts, including accounts not maintained at Schwab or TD Ameritrade.

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

Schwab and TD Ameritrade also offer other services intended to help PFA manage and further develop its business. 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. Schwab and TD Ameritrade may make available, arrange and/or pay third-party vendors for the types of services rendered to PFA. Schwab or TD Ameritrade 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 PFA. Schwab and TD Ameritrade may also provide other benefits such as educational events or occasional business entertainment of PFA personnel.

In evaluating whether to recommend that clients custody their assets at Schwab or TD Ameritrade, PFA 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 it considers and not solely the nature, cost or quality

of custody and brokerage services provided by Schwab or TD Ameritrade, which may create a potential conflict of interest.

### **C. Directed Brokerage, Trade Aggregation, Trade Error**

PFA executes client securities transactions primarily through the custodial broker-dealer selected by the client.

When using Schwab or TD Ameritrade as the broker-dealer custodian, PFA typically executes transactions only with such firm. If executing transactions directly with specialists and market makers outside Schwab or TD Ameritrade, PFA would be required to transfer trades back into customer accounts at Schwab or TD Ameritrade, with additional transfer charges. Also, PFA may not be able to achieve the same volume of negotiated transactions as Schwab Institutional or TD Ameritrade Institutional Services, which would increase transaction costs. In PFA's judgment, Schwab and TD Ameritrade provide better qualitative execution than PFA could executing with a market maker or specialist and then transferring the security back into the client's account.

The custodian executing the client's order charges each client a commission to execute transactions in the customer's account. The custodian, not PFA, determines the standard commission rate charged to PFA's clients and, while PFA recommends only those custodians whose commission rates PFA believes are competitive, transactions may not always be executed at the lowest available commission rate. PFA strives to execute securities for clients so that total account costs and qualitative execution are the most favorable under the circumstances. With respect to fixed income transactions executed by PFA's representatives through Schwab or TD Ameritrade Institutional, the advisory representative determines, based on a commission schedule adopted by Schwab or TD Ameritrade Institutional, the mark-up or mark-down assigned to bond transactions executed on behalf of clients of PFA. Such commissions are within the guidelines for bond commissions approved by Schwab or TD Ameritrade Institutional. PFA believes such commissions are competitive within the industry.

PFA may bundle separate trade orders of clients if trades in the same security are indicated for more than one account at the same time under similar circumstances. Bundling orders means aggregating, bunching, combining or grouping orders of various individual clients for purposes of executing the orders together as one order, and may be referenced in many varying ways. PFA receives no other benefit as a result of bundling trades. In bundling orders, the intent is to obtain volume discounts, better price or greater efficiencies on behalf of clients. When bundling orders, the trades are allocated to client accounts in writing in advance of the order being placed. Once the order is executed, the trades are allocated to the clients according to the written allocation. PFA allocates costs associated with a bundled trade on a pro rata basis among all the client accounts involved in a bundled trade. No client account may be favored over any other client account. Client orders are never bundled with orders of any employee or associated person.

If a trading error occurs, the source and cause for the error shall be determined. If the error is the fault of the broker or dealer, the broker or dealer shall correct the error and bear any resulting costs. If the error is the fault of PFA, PFA shall bear the costs of the error. The costs of an order error shall not be borne by the client.

For trade errors resulting in a gain, if the error is the fault of PFA or the broker or dealer, it is PFA's policy to return any monetary gain to the client from its trade error account held at the broker or dealer.

The details of each error will be documented by the trader and submitted to the Compliance Officer for review and filed in PFA's Error Account file.

## **Item 13. Review of Accounts**

### **A. Frequency and Triggering Factors**

For investment advisory clients, James T. Reding, Robert J. Spindel, or Brad Combs have the primary responsibility for reviewing and monitoring client accounts. Typically, they introduce the client to the firm and are most familiar with the clients' personal financial situation. PFA reviews client accounts at least quarterly, upon client request, or in a response to a change in the client's circumstances. The reviews include performance, asset allocation, income and expenses.

Upon engagement for comprehensive financial planning, the client and James T. Reding, Robert J. Spindel or Brad Combs determine the frequency and triggering factors for review, such as changes in tax laws, client circumstances or other defined changes in circumstances. The client and PFA jointly determine the nature and scope of reviews based on the client's needs and objectives.

In reviewing accounts, in most instances, PFA considers the client's wealth management plan, if any, the extent to which that plan is being met, the client's risk tolerance level, and whether any adjustments are needed.

### **B. Client Reports**

Investment Advisory Services. Upon engagement, PFA prepares and delivers a written wealth management plan for most clients. Thereafter, PFA provides written quarterly reports to all clients. These quarterly reports contain a portfolio evaluation of position summary, cost basis, unrealized gains and losses, and a schedule of realized taxable gains and losses. PFA offers clients an annual review meeting, with an updated asset allocation analysis, along with any additional recommendations, observations or commentary on significant events.

Comprehensive Financial Planning. After the initial engagement, clients receive a comprehensive financial plan. Any subsequent reports are as agreed with the client, and may include revisions, changing the plan and projections reflecting the changes.

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

PFA does not directly or indirectly compensate any person for client referrals.

PFA emphasizes a "team approach" when providing investment advisory services to its clients. If requested by a client, or if PFA believes legal, insurance or accounting services are required and in the best interests of a client's financial plan, PFA will recommend an independent attorney, accountant, insurance agent, etc. As possible, PFA gives the client multiple names, and the client chooses the actual person with whom the client desires to work. PFA does not pay for client referrals or enter into arrangements with other professionals for client referrals. However, PFA may have a

conflict of interest in making these recommendations because it may receive referrals from or do business with professionals that it has recommended to clients. PFA will refer other professionals to its clients only when PFA believes the services provided by the professional suit the client's needs.

In the interest of full disclosure, Robert J. Spindel, Investment Advisory Representative of PFA, maintains one business relationship with a client. Mr. Spindel and this client own the building in which both persons maintain their respective businesses. Mr. Spindel and the client bought the building and settled on the terms of the arrangement before this person became a client. No preferential or special treatment is rendered to this client. PFA manages this client's assets according to the client's needs and objectives, as it does with all clients. This client is an attorney and PFA may refer other clients to him but neither PFA nor this client receive any direct compensation.

## **Item 15. Custody**

PFA is deemed to have custody of certain client funds and securities within the meaning of Rule 206(4)-2 under the Advisers Act based on the fact that (1) certain representatives may serve as Trustee of client trusts; (2) some clients supply access instructions and/or passwords authorizing PFA to have electronic access to view their outside accounts online and (3) many of PFA's clients agree to have PFA's fees deducted directly from their custodial accounts.

All client funds and securities, including funds and securities of trust clients, are maintained in separate accounts for each client by qualified custodians that are not affiliated with PFA. PFA notifies each client of the qualified custodian's name and address and of the manner in which the funds and securities are maintained. Typically the client executes the advisory agreement with PFA and receives quarterly invoices for management fees.

On a quarterly or more frequent basis, each client will receive account statements, in addition to all confirmations, directly from the custodian or investment company where their securities are held. The client should carefully review those statements and compare them with the invoices they receive from PFA. In each case involving a fee deduction, the client's qualified custodian withdraws PFA's fee; PFA does not have the power to access client funds directly.

Federally registered advisors with custody must obtain an annual surprise examination of client assets conducted by an independent public accountant. PFA has entered into a written agreement to conduct the surprise exam with the firm of Boyd, Franz & Stephans LLP, located at 999 Executive Parkway, Ste 301, St. Louis, MO 63141. The date of the last exam was October 7, 2011.

## **Item 16. Investment Discretion**

PFA provides investment advice on a non-discretionary and a discretionary basis.

In such **discretionary clients**, Client agrees to establish an account with an independent, qualified custodian (the "Custodian") and to deposit cash and/or securities to be managed by Advisor into the account (the "Portfolio"). After notification by the Custodian that the Portfolio has been funded, Advisor will assist in developing Client's investment strategy. Advisor will not be responsible for changes in market value of the Portfolio prior to the time that Advisor commences management of the Portfolio. After Client has approved the investment strategy, Advisor shall commence managing

the Portfolio and shall have exclusive authority on a fully discretionary basis to buy, sell, and otherwise trade in stocks, bonds, open-end and closed-end mutual funds, exchange-traded funds, REITs, commodities funds and other securities or assets, and to invest, reinvest, or hold cash, on behalf of the Portfolio. Advisor may delegate any or all of the responsibilities, rights or duties described in this Agreement, with respect to all or a portion of the Portfolio, to one or more independent investment managers or fund managers selected by Advisor.

In such **non-discretionary clients**, PFA will advise you regarding investment transactions and, with your consent, we will implement recommended transactions on your behalf. We shall only be responsible for implementing financial planning advice to the extent that you accept our recommendations and you grant to Advisor a limited power of attorney for trading purposes with respect to your accounts. Client has ultimate responsibility for accepting or rejecting Advisor's recommendations and Advisor has no authority or responsibility for determining which trades will be made (or not made). Advisor will assist Client with establishing custodial account(s) with a broker-dealer or other qualified custodian. Client directs Advisor to execute all Client's portfolio transactions through the custodial broker-dealer unless otherwise directed by Client.

Each client indicates in their Confidential Questionnaire any restrictions or limitations they desire to impose on PFA's investment management services. They are also reminded annually in their Investment Policy Statement to notify PFA if there are any changes to their circumstances or restrictions they wish to impose.

Client recognizes that the value and usefulness of our advice depends upon information provided by you and your participation in determining your investment objectives. Client warrants that the confidential financial information provided to PFA is true, correct and complete. You agree to permit us to consult with, and to provide financial information to, your attorneys, accountants or other advisors to the extent necessary. You also agree to promptly inform us in writing of any changes in your financial situation, investment objectives or investment restrictions and any other factors that may be important in the management of your account. You hereby authorize us to provide personal financial information to you via e-mail. If you and your spouse are parties to this Agreement, you each acknowledge and agree that it is our policy to share information received from one spouse with the other spouse; and you further agree that our communications to one spouse shall be deemed effectively communicated to the other spouse.

## **Item 17. Voting Client Securities**

It is currently PFA's policy not to exercise proxy voting authority over client securities. PFA does not have authority to vote proxies for its clients on any matters regardless of whether PFA's investment authority is discretionary or non-discretionary. Each client retains sole and absolute authority and responsibility to vote proxies with respect to investments owned by the client.

In cases where James T. Reding is the investment advisory representative and is also serving as Trustee of client trusts, the Client signing the advisory agreement on the account has the responsibility and holds sole proxy voting authority.

Clients will receive their proxies or other solicitations directly from their custodian. Clients are free to contact us about a particular solicitation and our office will do our best to help them.

## **Item 18. Financial Information**

PFA does not believe there are any financial conditions that are reasonably likely to impair our ability to meet contractual commitments to clients.

### **Miscellaneous**

#### **Anti-Money Laundering**

Although it is not a requirement at this time, to help the government fight the funding of terrorism and money laundering activities, we have recently implemented an Anti-Money Laundering Policy, setting forth procedures to detect and potentially report suspicious activity. We will obtain, verify, and record information that identifies each person who opens an account. When you open an account, we will ask for your name, address, date of birth and other information that will allow us to identify you. We will also ask to see your driver's license or other identifying documents. PFA will update and expand its procedures as regulations are adopted by the SEC.

#### **Business Continuity Plan**

PFA has adopted a business continuity plan (the "Plan") that governs how its operations will be conducted in the case of an internal or external significant business disruption ("SBD"). In the case of an SBD that affects communication with or to PFA, prospective and existing clients are urged to call James T. Reding (314) 805-9346 or Stacey L. Cheek (314) 852-8025 for any and all questions that they may have. When possible, PFA's website ([www.pfaclient.com](http://www.pfaclient.com)) will be updated with contact information. A copy of the Plan will be made available to any client upon written request.

The custodian can also be reached directly. Schwab Institutional is located at 2423 East Lincoln, Phoenix, AZ 85016 and client service phone number is 877-716-6938 (Heartland Team) or trading 800-874-0432. TD Ameritrade Institutional is located at 4075 Sorrento Valley Blvd., Suite A, San Diego, CA 92121 and client service phone number is 888-354-8361 option 2 (service team 15) or for trading option 1.

In addition, Robert Spindel and James T. Reding have executed a Succession Plan Letter of Intent indicating that Robert Spindel or James T. Reding would provide for continuity of service to PFA clients in the event of either of their untimely death or disability.