

Adam Financial Associates, Inc.



Item 1 – Cover Page

Adam Financial Associates Inc.
2424 N. Federal Highway, Suite 159
Boca Raton FL 33431
Telephone: 561-417-0001
Website: www.adamfinl.com

March 31, 2012

This brochure provides information about the qualifications and business practices of Adam Financial Associates, Inc. If you have any questions about the contents of this brochure, please contact us at 2424 N. Federal Highway, Suite 159, Boca Raton FL 33431 (telephone: 561-417-0001).

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.

Adam Financial Associates, Inc. is a registered investment adviser. Registration of an Investment Adviser does not imply a certain level of skill or training.

Additional information about Adam Financial Associates, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

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Item 2 – Material Changes

This brochure is being updated as of March 31, 2012. The last previous annual brochure update was as of March 31, 2011.

This Item will discuss only specific material changes that are being made to the Brochure since the last annual update, and will provide clients with a summary of such changes.

There are no material changes to report to this brochure.

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Item 4 – Advisory Business

Since 1995, Adam Financial Associates, Inc. (AFA) has specialized in providing investment advisory and financial planning services to individuals on a fee-only basis, in the belief that fee-only investment advisory and financial planning services best ensure unbiased and objective advice for the client. The firm's founder and principal owner is Mari Adam.

The firm concentrates on providing investment advisory and portfolio management services tailored to the needs of individual clients. Investment supervisory services include portfolio development and analysis to ensure that a client's portfolio mix is appropriate to his or her goals and risk tolerance; investment sales and purchases; investment implementation and trading activities; ongoing monitoring of investments; and periodic reporting, updates, and rebalancing. For these clients, AFA normally uses the custody services of Charles Schwab & Co., Inc., a discount broker. By written request, clients may impose restrictions on investing in certain securities or types of securities (see Item 16 for additional information). Financial planning services are normally offered to these investment clients to address their broader financial needs, since reaching a client's goals and objectives requires a disciplined and comprehensive strategy that extends far beyond the investment portfolio.

For a minority of clients, AFA provides financial planning services on an hourly basis without providing ongoing investment advice. For example, AFA may work with individuals on their retirement planning, estate planning, college or educational planning, risk management and insurance planning, credit or budget planning, tax planning, and so forth. AFA may work with clients on only one aspect of their finances (e.g. exclusively on planning for their children's education) or may work comprehensively on their entire financial picture, depending on the preferences of the client.

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Adam Financial Associates, Inc.'s approach to personal financial planning is to:

- explore clients' financial attitudes, goals and objectives;
- analyze the information obtained in order to develop intelligent alternatives for the client's consideration;
- educate clients about the implications of selecting a particular alternative;
- implement the alternative selected by the client;
- and periodically update the client's plan, discussing new opportunities and challenges as appropriate.

AFA wants the client to be informed about his or her financial affairs and to take a proactive role in managing them. AFA meets, corresponds and communicates frequently with clients to provide guidance regarding the investment and financial planning process and their own personal financial situation, often within the context of an evolving investment, economic, and tax environment.

As of December 31, 2011, the last day of the preceding calendar year, AFA managed \$70,376,000 on a discretionary basis. No accounts were managed on a non-discretionary basis.

Item 5 – Fees and Compensation

For most existing clients, and all new clients who joined the firm on or after January 1, 2011, AFA provides *investment advisory services* on an “assets under management” schedule only. (AFA still has in place arrangements with a limited number of existing clients to provide these services on an hourly basis, at client request.)

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AFA does not charge or accept commissions for investment advisory services. AFA believes that fee-only investment advisory services best ensure unbiased and objective advice for the client.

Before engaging AFA's services, clients are provided with and sign a written agreement detailing fee schedules and the nature of services to be provided. For ongoing investment management, AFA normally charges a quarterly fee, payable in advance, based on a percentage of assets under management (AUM). The current fee schedule follows:

- 1.00 % of assets under management on the first \$500,000
- .75 % of assets under management on the next \$500,000
- .50 % of assets on remaining assets

To provide clients with access to needed financial planning and investment advice, AFA does not impose a minimum account size. However, for ongoing investment management services, AFA maintains a minimum fee of \$500 per quarter to cover the costs of continuous monitoring, client meetings and updates, financial planning services, statement preparation, administrative overhead, and other expenses.

Investment management fees are normally deducted from the client's asset management account on a quarterly basis. However, in selected circumstances, clients may make arrangements to be billed directly for services provided. The investment advisory contract may be terminated by either party at any time and fees are prorated and refunded accordingly.

AFA continues to offer the option of *financial planning services only* to new clients on an hourly basis, as explained in Item 4. For financial planning or other engagements that do not involve investment management or advice, AFA normally charges fees on an hourly basis at the rate of \$250 per hour, most commonly with a ten-hour minimum retainer. The number of hours depends on the scope and complexity of the work entailed. AFA normally requests a retainer covering the ten-hour minimum in advance. For ongoing hourly work

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that continues beyond the initial retainer, AFA normally deducts the fee from the client's investment account or makes arrangements to bill the client directly on a monthly, bimonthly, or quarterly basis depending on the account circumstances. The contract may be terminated by either party at any time and fees are prorated and refunded according to the proportional amount of work completed.

AFA may provide customized fee arrangements or discounts from the above schedules in certain cases. For example, discounts may be provided for long-standing or repeat clients, as a courtesy to related professionals, for family members, for pro-bono cases, or for clients not requiring the full range of services. AFA may agree to provide services on an hourly or flat fee basis, in lieu of an assets under management (AUM) basis, when requested and circumstances warrant. AFA may provide services using a mix of AUM or hourly schedules, or agree to provide services above and beyond those encompassed in the original agreement, at a supplemental hourly rate. At no time have "assets under management" fees exceeded those indicated on the published fee schedule.

AFA does not accept compensation for the sale of securities or other investment products, and would normally not recommend or employ in client portfolios any investment products involving sales commissions.

The client may incur other costs in addition to AFA's fees. For example, mutual funds and exchange traded funds selected for a client's portfolio normally charge internal management fees, which are disclosed in a fund's prospectus. On occasion, clients may also incur certain charges imposed by custodians, brokers, and other third parties such as wire transfer fees, check order fees, deferred sales charges on funds purchased through another broker and later sold at Schwab, account transfer fees, commissions for the purchase of exchange-traded funds and individual stocks (currently averaging \$8.95 for most accounts), transaction fees for a small minority of funds, or other less common fees on brokerage accounts and securities transactions. Adam Financial Associates, Inc. does not receive any portion of these commissions, fees, or costs.

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Item 8, Item 12 and Item 16 further describe normal investment fees and expenses, as well as the factors that Adam Financial Associates, Inc. considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

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

Adam Financial Associates, Inc. does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

Item 7 – Types of Clients

AFA generally provides investment advice to the following types of clients and/or accounts:

- individuals
- IRA, SEP, SIMPLE, 401(k) and other retirement plans
- fiduciaries (Guardians, trustees, executors, etc.)
- custody accounts for minors, such as UTMA accounts
- 529 and college savings accounts
- pension and profit sharing plans
- corporations or other business entities
- court-determined or other settlements for personal injury

See Item 5 for additional information on minimum account size.

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

Investment Strategies Used to Formulate Investment Advice

AFA normally endorses a long-term "buy-and-hold," broadly diversified investment strategy in the belief that it is efficient and cost-effective, will produce the highest returns for clients, and is most likely to ensure consistency with the client's individually tailored investment profile. However, on infrequent occasion and when called for by both market conditions and the client's investment goals, AFA may recommend the use of other investment approaches such as more short-term tactical asset reallocations. Clients should be aware that regardless of the investment strategy used, investing in securities involves a risk of loss that clients should be prepared to bear. The likelihood of loss may be greater if clients invest for a shorter period of time.

AFA normally invests in stock and bond mutual funds and exchange-traded funds inside client portfolios. Each mutual fund and exchange-traded fund sends clients a prospectus detailing the types of potential risks that may be encountered with that investment. A typical bond fund may present potential market risk, credit risk, interest rate risk, liquidity risk, and other types of risk that are explained more fully within the prospectus. A typical stock fund may present potential market risk due to the volatility of the stock market, in addition to specific risks due to the focus of the stock fund on a particular market segment like small or mid-size companies, foreign or emerging market companies, real estate companies, or another narrow industry segment. Investors should read the investment prospectuses carefully and discuss any concerns they may have with AFA.

Clients who retain AFA to develop an investment portfolio designed to address their long-term life goals, such as retirement, are expected to remain committed to that portfolio strategy for the longer term. AFA does not endorse and does not follow a short-term market-timing strategy. Potential clients who cannot "stay the course" for a longer period

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of time, and who are frequently tempted to change their portfolio strategy based on short-term market movements, are encouraged to look elsewhere for investment advice.

AFA may use in-depth data gathering, extensive client consultation, proprietary risk and investment questionnaires, and asset allocation methodology and software based on the Nobel Prize-winning concepts of modern portfolio theory to design optimized portfolios for investment clients. Client portfolios are customized to match a client's investment profile and goals and objectives with the appropriate investment mix (taking into consideration, for example, risk tolerance, return targets, time horizon, tax situation, income needs, etc.).

Selection of Investments

AFA uses several criteria in selecting investments to include in client portfolios. To be considered for inclusion in portfolios, investments and/or asset classes must normally demonstrate the following characteristics:

- "suitability" with regard to the portfolio
- diversification advantages
- availability on a no-load or load-waived basis (for mutual funds)
- marketability and reasonable liquidity
- attractive expected risk/return trade-off
- reasonable expense ratios or expense characteristics
- no special administrative problems (e.g. tax, accounting, valuation)
- availability of information needed to evaluate and monitor the investment

Due to these relatively strict criteria, AFA portfolios will normally include only mutual funds, exchange traded funds (ETFs), equities and fixed-income securities (including government, corporate and municipal issues), and various bank- and insurance-issued securities. For new client purchases, AFA prefers to use mutual funds or ETFs due to their diversification, research and management advantages. As detailed under Item 5, mutual funds and ETFs will charge an annual management fee, further described in the prospectus,

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for administration and investment management services. Mutual funds are always purchased on a no-load (no commission) basis, and almost always on a no-transaction-fee basis. However, normal brokerage commissions (currently \$8.95 for most clients) may be charged by the custodial broker for the purchase of any ETFs, individual stocks, or some other securities. AFA does not receive any portion of these brokerage commissions, should they apply.

Depending on the client's circumstances and portfolio holdings, AFA may also provide investment advice concerning other types of investments or transactions such as partnerships, futures or commodities, or other business or investment activities with which a client is involved.

Main Sources of Information

AFA's main sources of information may include general and financial media (such as newspapers, magazines, and on-line services), research and informational materials provided by others (such as subscription and database services), corporate rating services, annual reports, prospectuses, company press releases, and other sources such as professional conferences, meetings and educational training. Whenever possible, AFA obtains first-hand information from portfolio managers and other investment professionals through personal discussions, teleconferences or seminars.

With respect to in-house staff providing investment advice, AFA requires advanced investment and personal financial training, practical experience in investment management and financial planning, coupled with ongoing continuing education and training. For example, in the most recent reporting periods, AFA's principal officer averaged over 90 hours of formal continuing education to satisfy Certified Financial Planner ongoing requirements (well in excess of the 30 hours required), in addition to additional hours to maintain insurance licenses.

AFA may consult with and use the services of other financial and investment professionals and organizations (such as mutual fund companies, portfolio managers, registered

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representatives, etc.) in the course of providing advisory services to clients. AFA may also on occasion consult with and refer clients to other professionals such as attorneys, accountants, corporate fiduciaries, mortgage brokers, and insurance agents. In selecting these professionals and/or their organizations, AFA looks for a combination of prior experience, professional reputation and accomplishment, integrity, education and training, and institutional resources and support, with the objective being quality service for the client and the client's account.

Item 9 – Disciplinary Information

Adam Financial Associates, Inc. has no legal or disciplinary events that are material under this Item.

Item 10 – Other Financial Industry Activities and Affiliations

AFA President Mari B. Adam is licensed in the state of Florida as a Life and Variable Annuity and Health Insurance Agent (2-15), which under Florida law permits AFA to evaluate and offer to clients insurance products and services. AFA feels this is an important enhancement to its existing client services, since it provides an alternative to traditional, high-commission insurance delivery systems. Nonetheless, the firm expects insurance activities to continue to occupy a very secondary role to its overall investment and financial planning services. When insurance products or services are indicated for a client's situation, AFA's policy is to obtain the most appropriate product or service for the client at the lowest price through the use of term, no-load or low-load offerings whenever possible. AFA will work with the client's agent or will serve as agent, if this results in a more favorable outcome to the client. Depending on AFA's capacity in the transaction and the type of product purchased, AFA may or may not be entitled to receive a commission payment. AFA has appointments (agent relationships) with various insurance companies for the purpose of allowing AFA to offer term life, disability, long-term care and medical

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insurance to clients requiring coverage. Active appointments are required to maintain an insurance license in force.

AFA is not registered as a securities broker-dealer, nor does it have material affiliations with a broker-dealer or other party. It frequently uses Charles Schwab and Co., Inc., a discount broker, to provide custodial account services to clients, having selected Schwab on the basis of its client service and price package, but does not receive compensation from Schwab or any other broker, adviser, or professional in return for client business. AFA believes its independence allows it to avoid conflicts of interest and ensure that the client's interests always come first.

Item 11 – Code of Ethics

AFA has adopted a comprehensive Code of Ethics for all supervised persons ensuring high ethical standards, governing personal securities transactions, and ensuring the confidentiality of client information, among other matters, and will provide a copy of the Code of Ethics to any client or prospective client upon request.

AFA principals may on occasion buy or sell for their own accounts securities and mutual funds that they also recommend to clients for purchase or sale. However, AFA believes that conditions for conflicts of interest do not exist, for the following reasons: 1). purchases or sales by the client, principal or related persons are conducted on organized securities exchanges and the volume purchased or sold would have no impact on the market price of the asset; 2). block trading is not presently used; 3). AFA uses the same criteria in purchasing and selling securities as are used for clients (although due to the "suitability" factor, some accounts could conceivably be buying while others selling); 4) in contemplating investment purchases and sales, AFA has access to the same information made available to clients and AFA does not have access to so-called "insider information"; 5). AFA maintains and enforces a policy against insider trading and examines accounts for any conflicts of interest on a quarterly basis.

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Item 12 – Brokerage Practices

AFA's objective is to ensure that needed brokerage and custodial services are provided to the client at the lowest possible cost. AFA does not have any control over the commission structure provided by a particular broker. AFA does not receive compensation from any broker in return for client business. Usually, AFA will recommend a broker or financial services provider to a client based on a variety of criteria, including, among others:

- availability of online, telephone, and in-person service options for clients;
- number and attractiveness of mutual funds available on a no-transaction-fee (NTF) or institutional load-waived platform;
- transaction fees for funds not on an NTF platform;
- commission schedule for stock buys/sells;
- fixed income capabilities;
- account maintenance fees charged/waived for clients;
- money-market, sweep and margin interest rates;
- range of account types available;
- existence of a dedicated advisor service team along with rapid, competent handling of service needs;
- user-friendliness of services and procedures;
- quality of transaction execution;
- quality of back office services and support provided, including services such as duplicate statements, CD-ROM statements, online updates and alerts, e-confirmations, e-statements, and training;
- availability and access to newer products such as managed accounts or alternative investments;
- availability of in-house Trust services;
- availability of research and research services;
- and available software/interfaces for downloads, account aggregation and portfolio management for both advisor and client use.

AFA normally recommends that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer,

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member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. AFA is independently owned and operated and not affiliated with Schwab. AFA does not receive compensation from Charles Schwab or any other broker in return for client business. Schwab provides AFA with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets is maintained in accounts at Schwab Institutional, and is not otherwise contingent upon AFA committing to Schwab any specific amount of business (assets in custody or trading). Schwab's services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment. For AFA's client accounts maintained in its custody, Schwab generally does not charge separately for custody but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab also makes available to AFA other products and services that assist AFA in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (online trading); provide research, pricing information and other market data; facilitate payment of AFA's fees from its clients' accounts; and assist with back-office functions, such as record keeping and client reporting.

On occasion, AFA may recommend other custodians or discount brokers such as Fidelity or Vanguard for their expertise and low-cost services, especially as related to specialty products like no-load annuities, 529 college plans, and small-business retirement plans. Full-commission brokers could also be recommended when that broker's specialized knowledge, abilities, or research capabilities are required and the client's need for such services would justify the higher commission schedule. AFA will always strive to obtain for the client the highest possible level of services for the lowest possible cost. And of course,

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AFA will work with a broker of a client's choosing when appropriate, however, this may impact costs and the level of service to be provided.

Item 13 – Review of Accounts

For client accounts under AFA's investment management responsibility, each client's overall asset allocation strategy and specific investments are reviewed by AFA's President on at least a quarterly basis, or more frequently as individual or market conditions warrant. Factors that may trigger more frequent reviews are, for example, changes in mutual fund management personnel, changes in investment or economic conditions or market performance, changes in an individual client's circumstances, cash additions or withdrawals from the portfolio, changes to investment objectives, and so forth. Clients receive periodic detailed reports, usually monthly, on their investments and accounts directly from the independent third-party custodian who holds the assets. AFA feels this is a very important safeguard for clients concerned with the integrity and safety of their portfolios.

In addition, AFA furnishes clients with written reports on a quarterly basis, or more frequently if requested. These reports provide supplementary information on portfolio positions, cost basis, valuation and portfolio performance. Clients are also provided with information on gains and losses and other critical data on a scheduled basis, and receive additional material concerning their investments (e.g. annual reports, quarterly reports, prospectuses) directly from the company or mutual fund company.

Item 14 – Client Referrals and Other Compensation

AFA firmly rejects the practice of "referrals for pay," believing it undermines trust and objectivity in the client/advisor relationship. AFA does not receive client referrals from any individual or firm in return for compensation or advantages, nor does it provide client

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referrals to any individual or firm for compensation or advantages. This is to ensure AFA's independence and avoid conflicts of interest that would be harmful to the client.

Item 15 – Custody

As noted in Item 13, clients receive periodic detailed statements, usually monthly, from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Clients should carefully review such statements and compare such official custodial records to the account statements that AFA may provide. AFA statements may on occasion vary slightly from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Item 16 – Investment Discretion

AFA normally manages investment accounts using discretionary authority. For discretionary accounts, the client grants AFA the authority to select, without obtaining specific client consent, the securities to be bought and sold and the amount of the securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account. When selecting securities and determining amounts, Adam Financial Associates, Inc. observes the investment policies, limitations and restrictions of the clients for which it advises. Discretionary authority is provided by the client using a "Limited Power of Attorney" form, under procedures established by the investment custodian, which permits AFA to obtain account information, trade, and perform other limited functions. However, it does not provide AFA with the power to make withdrawals. Only the client retains that power.

The client must approve the broker-dealer or custodian to be used. AFA does not have control over the commission rates paid. These are set by the broker-dealer or custodian. For ongoing investment management accounts, overall investment strategy and portfolio allocation are agreed upon with the client, normally via a combination of personal

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meetings, written correspondence, proposals and follow-up discussions. AFA does not proceed with the investment management of an account until the client provides guidance as to the general strategy to be adopted. Once the initial guidelines are established in discretionary accounts, AFA has full discretion as to which securities are bought and sold, subject to the investment allocation guidelines or other conditions established by clients. In non-discretionary accounts, AFA does not proceed with sales or purchases without client approval (and, in fact, would normally make recommendations to the client, who would then assume responsibility for executing the trade). Because of the nature of the asset allocation and investment policy process, most clients' portfolios will include limitations as to the amount of securities to be bought and sold. For example, a client's risk tolerance may preclude the use of certain asset categories. In other cases, the weighting of a particular asset class within the portfolio may be limited to a certain percentage. Likewise, individual security holdings will generally not exceed a given percentage of a client's portfolio. These constraints and limitations, intended to reduce overall portfolio risk, are determined in consultation with the client in the initial stages of the client relationship, and are updated periodically. Of course, the client may unilaterally decide to override or deviate from the guidelines he or she has set in terms of these constraints and limitations. Investment guidelines and restrictions must be provided to Adam Financial Associates, Inc. in writing.

Item 17 – Voting Client Securities

AFA has established Proxy Voting Policies and Procedures. Clients may obtain a copy of AFA's complete Proxy Voting Policies and Procedures, and/or information on how AFA has voted proxies, by making a written request to AFA's office.

For those accounts delegating proxy voting to AFA, AFA's policy is to vote proxies in a manner consistent with clients' best interest and in a way most likely to maximize clients' investment returns over the long-term time period. AFA does not always vote as requested by management, and makes decisions on a case-by-case basis. Corporate governance is an

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important issue, and when AFA votes proxies, it represents shareholders, their interests, and their desire for responsible, effective and honest corporate leadership.

For those accounts not delegating proxy voting authority to AFA, clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios.

Item 18 – Financial Information

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about their financial condition. Adam Financial Associates, Inc. has no financial condition that impairs its ability to meet contractual and fiduciary commitments to clients. AFA does not require prepayment of client fees six months or more in advance; retainer or advance payment agreements for new or existing clients normally cover one quarter (three months) only.

Item 19 – Requirements for State-Registered Advisers

Information on AFA's principal officers, and other businesses in which AFA is actively engaged, is provided elsewhere in Form ADV.