

The Financial Advisory Group, Inc.

SEC File Number: 801 – 54599

Brochure Dated 3/15/2012

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This Brochure provides information about the qualifications and business practices of The Financial Advisory Group, Inc. (“The Financial Advisory Group”). If you have any questions about the contents of this Brochure, please contact us at (713) 627-7660 or sestrin@finadvisors.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about The Financial Advisory Group also is available on the SEC’s website at www.adviserinfo.sec.gov.

References herein to Financial Advisory Group as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.

Item 2 Material Changes

There have been no material changes made to The Financial Advisory Group's disclosure statement since last year's Annual Amendment filing on March 28, 2011.

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Item 4 Advisory Business

- A. The Financial Advisory Group, Inc. is a corporation formed on May 6, 1997 in the State of Texas. The Financial Advisory Group became registered as an Investment Adviser Firm in June 1997. The Financial Advisory Group is owned by Steven A. Estrin and Richard J. Alphonso. Mr. Estrin is the Chairman, and Mr. Alphonso is The Financial Advisory Group's President and Chief Executive Officer.
- B. As discussed below, The Financial Advisory Group offers to its clients (individuals, pension and profit sharing plans, business entities, trusts, estates and charitable organizations, etc.) investment advisory services, and, to the extent specifically requested by a client, tax preparation services, financial planning and related consulting services.

INVESTMENT ADVISORY SERVICES

The client can determine to engage The Financial Advisory Group to provide discretionary investment advisory services which is always on a *fee-only* basis. The Financial Advisory Group's annual investment advisory fee is based upon a percentage (%) of the market value of the assets placed under The Financial Advisory Group's management (between negotiable and 1.00%) as follows:

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
\$500,000 and less	1.00%
\$500,001-\$1,000,000	0.75%
\$1,000,001 and up	0.50%

FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)

To the extent requested by a client, The Financial Advisory Group *may* determine to provide financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone separate fee basis. The Financial Advisory Group's planning and consulting fees are negotiable, but generally range from \$5,000 to \$35,000 on a fixed fee basis, and from \$100 to \$400 on an hourly rate basis, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s). Prior to engaging The Financial Advisory Group to provide planning or consulting services, clients are generally required to enter into a *Financial Planning and Consulting Agreement* with The Financial Advisory Group setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the portion of the fee that is due from the client prior to The Financial Advisory Group commencing services. If requested by the client, The Financial Advisory Group may recommend the services of other professionals for implementation purposes. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from The Financial Advisory Group. **Please Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. **Please Also Note:** It remains the client's responsibility to promptly notify The Financial Advisory Group if there is ever any change in his/her/its financial situation or investment objectives for the purpose of

reviewing/evaluating/revising The Financial Advisory Group's previous recommendations and/or services. **Please Also Note:** Although The Financial Advisory Group's Principal, Richard J. Alphonso, in his separate individual capacity is licensed as a Certified Public Accountant and an attorney, Mr. Alphonso does not provide accounting or legal services to any of The Financial Advisory Group's clients, and no corresponding CPA-client or attorney-client relationship is established.

TAX PREPARATION SERVICES

To the extent requested by the client, The Financial Advisory Group *may* determine to provide tax preparation services on a stand-alone separate fee basis. The Financial Advisory Group's tax preparation fees are negotiable, but generally range from \$1,000 to \$12,000 on a fixed fee basis, and from \$100 to \$400 on an hourly rate basis, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s). Prior to engaging The Financial Advisory Group to provide tax preparation services, clients are generally required to enter into a *Tax Preparation Agreement* with The Financial Advisory Group setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the portion of the fee that is due from the client prior to The Financial Advisory Group commencing services.

RETIREMENT CONSULTING

The Financial Advisory Group also provides non-discretionary pension consulting services, pursuant to which it assists sponsors of self-directed retirement plans with the selection and/or monitoring of investment alternatives (generally open-end mutual funds) from which plan participants shall choose in self-directing the investments for their individual plan retirement accounts. In addition, to the extent requested by the plan sponsor, The Financial Advisory Group shall also provide participant education designed to assist participants in identifying the appropriate investment strategy for their retirement plan accounts. The terms and conditions of the engagement shall generally be set forth in a *Retirement Plan Consulting Agreement* between The Financial Advisory Group and the plan sponsor.

MISCELLANEOUS

Non-Investment Consulting/Implementation Services. To the extent requested by the client, The Financial Advisory Group *may* provide consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. Neither The Financial Advisory Group, nor any of its representatives, serves as a licensed insurance agent, and no portion of The Financial Advisory Group's services should be construed as same. To the extent requested by a client, The Financial Advisory Group may recommend the services of other professionals for certain non-investment implementation purposes (i.e., attorneys, accountants, insurance, etc.). The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from The Financial Advisory Group. **Please Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. **Please Also Note:** It remains the client's responsibility to promptly notify The Financial Advisory Group if there is ever any change in his/her/its financial situation or investment objectives for the purpose of

reviewing/evaluating/revising The Financial Advisory Group's previous recommendations and/or services.

Private Investment Fund. The Financial Advisory Group may recommend that certain of its qualified clients consider an investment, as limited partners, in KM-YH Partners, LP, KM-TS Partners, LP and/or KM-1488, LP (collectively the "*Partnerships*"). The purpose of the *Partnerships* is to own, develop, manage and operate commercial real estate. The Financial Advisory Group advises and consults the General Partners of the *Partnerships*, for and on behalf of the Limited Partners, regarding the structuring of the unit offerings and thereafter monitoring and reporting on the activities of the *Partnerships*. The *Partnerships* pay The Financial Advisory Group an hourly consulting fee for its services. The Financial Advisory Group does not have, nor will it exercise, any have discretionary authority to place any client assets in the *Partnerships*. Rather, The Financial Advisory Group's role relative to the *Partnerships* shall be limited to its initial and ongoing due diligence and investment monitoring services. If a client determines to become a *Partnership* investor, the amount of assets invested in the Partnership(s) may be included as part of "assets under management" for purposes of The Financial Advisory Group calculating its investment advisory fee. Generally, The Financial Advisory Group does not include partnership interests as part of the investment management fee. The Financial Advisory Group's clients are under absolutely no obligation to consider or make an investment in the *Partnership(s)*.

Please Note: Private investment funds generally involve various risk factors including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in the funds offering documents, which will be provided to each client for review and consideration. Unlike other liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

Please Also Note: Valuation. In the event that The Financial Advisory Group references private investment funds owned by the client on any supplemental account reports prepared by The Financial Advisory Group, the value(s) for all such private investment funds shall reflect either the initial purchase and/or the most recent valuation provided by the fund sponsor. If the valuation reflects the initial purchase price (and/or a value as of a previous date), the current value(s) (to the extent ascertainable) could be **significantly more or less** than the original purchase price.

Please Note: Fee Differentials. The Financial Advisory Group *may* charge a blended fee if the client elects more than one of the above referenced services which could be less than the aggregation of the same individually-priced services. Blended fees could be based on other factors such as market competitive pricing; fees charged existing clients in the same geographical region, and client longevity. The Financial Advisory Group's clients could pay diverse fees based upon various subjective and objective factors such as

market value of their assets, the complexity of the engagement, and the level and scope of the overall financial planning, tax and/or consulting services being rendered. All clients and prospective clients should be guided accordingly.

Client Obligations. In performing its services, The Financial Advisory Group shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify The Financial Advisory Group if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising The Financial Advisory Group's previous recommendations and/or services.

Disclosure Statement. A copy of The Financial Advisory Group's written Brochure as set forth on Part 2A of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Advisory Agreement, Tax Preparation Agreement or Financial Planning and Consulting Agreement*.

- C. The Financial Advisory Group shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, The Financial Advisory Group shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at anytime, impose reasonable restrictions, in writing, on The Financial Advisory Group's services.
- D. The Financial Advisory Group does not participate in a wrap fee program.
- E. As of February 1, 2012, The Financial Advisory Group had about \$511,994,621 in assets under management on a discretionary basis.

Item 5 Fees and Compensation

- A. The client can determine to engage The Financial Advisory Group to provide discretionary investment advisory services which is always on a *fee-only* basis.

INVESTMENT ADVISORY SERVICES

If a client determines to engage The Financial Advisory Group to provide discretionary investment advisory services which is always on a *fee-only* basis, The Financial Advisory Group's annual investment advisory fee shall be based upon a percentage (%) of the market value and type of assets placed under The Financial Advisory Group's management (between negotiable and 1.00%) as follows:

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
\$500,000 and less	1.00%
\$500,001-\$1,000,000	0.75%
\$1,000,001 and up	0.50%

Please Note: Fee Differentials. The Financial Advisory Group *may* charge a blended fee if the client elects more than one of the above referenced services which could be less than the aggregation of the same individually-priced services. Blended fees could be based on other factors such as market competitive pricing; fees charged existing clients in the same geographical region, and client longevity. The Financial Advisory Group's clients could pay diverse fees based upon various subjective and objective factors such as market value of their assets, the complexity of the engagement, and the level and scope of the overall financial planning, tax and/or consulting services being rendered. All clients and prospective clients should be guided accordingly.

FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)

To the extent specifically requested by a client, The Financial Advisory Group *may* determine to provide financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone fee basis. The Financial Advisory Group's planning and consulting fees are negotiable, but generally range from \$5,000 to \$35,000 on a fixed fee basis, and from \$100 to \$400 on an hourly rate basis, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s).

TAX PREPARATION SERVICES

To the extent specifically requested by a client, The Financial Advisory Group *may* determine to provide tax preparation services. The Financial Advisory Group's tax preparation fees are negotiable, but generally range from \$1,000 to \$12,000 on a fixed fee basis, and from \$100 to \$400 on an hourly rate basis, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s).

- B. Clients may elect to have The Financial Advisory Group's advisory fees deducted from their custodial account. Both The Financial Advisory Group's *Investment Advisory Agreement* and the custodial/ clearing agreement may authorize the custodian to debit the account for the amount of The Financial Advisory Group's investment advisory fee and to

directly remit that management fee to The Financial Advisory Group in compliance with regulatory procedures. In the limited event that The Financial Advisory Group bills the client directly, payment is due upon receipt of The Financial Advisory Group's invoice. The Financial Advisory Group shall deduct fees and/or bill clients quarterly in advance, based upon the fee agreement which shall encompass all client agreements between The Financial Advisory Group and the client. The Financial Advisory Group shall review the client's fee agreement annually, at which time all adjustments to the fee agreement shall be mutually agreed upon.

- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, The Financial Advisory Group shall generally recommend that Charles Schwab and Co., Inc. ("*Schwab*") and/or American Funds ("*American*") (§529 Plans only) serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as *Schwab* and *American* charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). In addition to The Financial Advisory Group's investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses). When beneficial to the client, individual fixed-income and/or equity transactions may be effected through broker-dealers with whom The Financial Advisory Group and/or the client have entered into arrangements for prime brokerage clearing services, including effecting certain client transactions through other SEC registered and FINRA member broker-dealers (in which event, the client generally will incur both the transaction fee charged by the executing broker-dealer and a "tradeaway" fee charged by *Schwab*.)
- D. The Financial Advisory Group's annual investment advisory fee shall be prorated and paid quarterly, in advance, per the amount specified in the fee agreement. The Financial Advisory Group generally requires an annual minimum fee of \$5,000 for investment management services. The *Investment Advisory Agreement* between The Financial Advisory Group and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination, The Financial Advisory Group shall refund the pro-rated portion of the advanced advisory fee paid based upon the number of days remaining in the billing quarter.
- E. Neither The Financial Advisory Group, nor its representatives, accepts compensation from the sale of securities or other investment products.

Item 6 Performance-Based Fees and Side-by-Side Management

Neither The Financial Advisory Group, nor any supervised person of The Financial Advisory Group, accepts performance-based fees.

Item 7 Types of Clients

The Financial Advisory Group's clients shall generally include individuals, business entities, trusts, estates and charitable organizations. The Financial Advisory Group generally requires an annual minimum fee of \$5,000 for investment management services. The Financial Advisory Group, in its sole discretion, may charge a lesser investment management fee or reduce or waive its annual minimum fee based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

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

- A. The Financial Advisory Group may utilize the following methods of security analysis:
- Fundamental - (analysis performed on historical and present data, with the goal of making financial forecasts)
 - Cyclical – (analysis performed on historical relationships between price and market trends, to forecast the direction of prices)

The Financial Advisory Group may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Margin Transactions (use of borrowed assets to purchase financial instruments)
- Options (contract for the purchase or sale of a security at a predetermined price during a specific period of time)

Please Note: Investment Risk. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by The Financial Advisory Group) will be profitable or equal any specific performance level(s).

- B. The Financial Advisory Group's methods of analysis and investment strategies do not present any significant or unusual risks.

However, every method of analysis has its own inherent risks. To perform an accurate market analysis The Financial Advisory Group must have access to current/new market information. The Financial Advisory Group has no control over the dissemination rate of market information; therefore, unbeknownst to The Financial Advisory Group, certain analyses may be compiled with outdated market information, severely limiting the value of The Financial Advisory Group's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

The Financial Advisory Group's primary investment strategies - Long Term Purchases and Short Term Purchases - are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy.

In addition to the fundamental investment strategies discussed above, The Financial Advisory Group may also implement and/or recommend – use of margin, and/or options transactions. Each of these strategies could have a high level of inherent risk. (*See discussion below*).

Margin is an investment strategy with a high level of inherent risk. A margin transaction occurs when an investor uses borrowed assets to purchase financial instruments. The investor generally obtains the borrowed assets by using other securities as collateral for the borrowed sum. The effect of purchasing a security using margin is to magnify any gains or losses sustained by the purchase of the financial instruments on margin. **Please Note:** To the extent that a client authorizes the use of margin, and margin is thereafter employed by The Financial Advisory Group in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to The Financial Advisory Group may be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential ***conflict of interest*** whereby the client's decision to employ margin *may* correspondingly increase the management fee payable to The Financial Advisory Group. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

The use of options transactions as an investment strategy could involve a high level of inherent risk. Option transactions establish a contract between two parties concerning the buying or selling of an asset at a predetermined price during a specific period of time. During the term of the option contract, the buyer of the option gains the right to demand fulfillment by the seller. Fulfillment may take the form of either selling or purchasing a security depending upon the nature of the option contract. Generally, the purchase or the recommendation to purchase an option contract by The Financial Advisory Group shall be with the intent of offsetting/"hedging" a potential market risk in a client's portfolio. **Please Note:** Although the intent of the options-related transactions that may be implemented by The Financial Advisory Group is to hedge against principal risk, certain of the options-related strategies (i.e. straddles, short positions, etc), may, in and of themselves, produce principal volatility and/or risk. Thus, a client must be willing to accept these enhanced volatility and principal risks associated with such strategies. In light of these enhanced risks, client may direct The Financial Advisory Group, in writing, not to employ any or all such strategies for his/her/their/its accounts.

- C. Currently, The Financial Advisory Group primarily allocates client investment assets among various individual equity (stocks), debt (bonds) and fixed income securities, mutual funds exchange traded funds ("ETFs") and/or private investment funds, on a discretionary basis in accordance with the client's designated investment objective(s).

Item 9 Disciplinary Information

The Financial Advisory Group has not been the subject of any disciplinary actions.

Item 10 Other Financial Industry Activities and Affiliations

- A. Neither The Financial Advisory Group, nor its representatives, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither The Financial Advisory Group, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.
- C.

- 2. **Private Investment Fund.** As disclosed in Item 4.B, The Financial Advisory Group may recommend that certain of its qualified clients consider an investment, as limited partners, in KM-YH Partners, LP, KM-TS Partners, LP and/or KM-1488, LP (collectively the “*Partnerships*”). The purpose of the *Partnerships* is to own, develop, manage and operate commercial real estate. The Financial Advisory Group advises and consults the General Partners of the *Partnerships*, for and on behalf of the Limited Partners, regarding the structuring of the unit offerings and thereafter monitoring and reporting on the activities of the *Partnerships*. The *Partnerships* pay The Financial Advisory Group an hourly consulting fee for its services. The Financial Advisory Group does not have, nor will it exercise, any have discretionary authority to place any client assets in the *Partnerships*. Rather, The Financial Advisory Group’s role relative to the *Partnerships* shall be limited to its initial and ongoing due diligence and investment monitoring services. If a client determines to become a *Partnership* investor, the amount of assets invested in the *Partnership(s)* shall be included as part of “assets under management” for purposes of The Financial Advisory Group calculating its investment advisory fee. The Financial Advisory Group’s clients are under absolutely no obligation to consider or make an investment in the *Partnership(s)*.

Please Note: Private investment funds generally involve various risk factors including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each offering documents, which will be provided to each client for review and consideration. Unlike other liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

Please Also Note: Valuation. In the event that The Financial Advisory Group references private investment funds owned by the client on any

supplemental account reports prepared by The Financial Advisory Group, the value(s) for all such private investment funds shall reflect either the initial purchase and/or the most recent valuation provided by the fund sponsor. If the valuation reflects the initial purchase price (and/or a value as of a previous date), the current value(s) (to the extent ascertainable) could be **significantly more or less** than the original purchase price.

Please Also Note: Because The Financial Advisory Group can earn both a consulting fee from the *Partnerships* and an investment advisory fee from the client, which, when taken together, may exceed the fee that The Financial Advisory Group would earn under its standard “assets under management” fee schedule referenced at Item 4.B above, the recommendation that a client become a *Partnership* investor presents a **conflict of interest**. No client is under any obligation to become a *Partnership* investor. **The Financial Advisory Group’s Chief Compliance Officer, Steven A. Estrin, remains available to address any questions regarding this conflict of interest.**

- D. The Financial Advisory Group does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients.

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

- A. The Financial Advisory Group maintains an investment policy relative to personal securities transactions. This investment policy is part of The Financial Advisory Group’s overall Code of Ethics, which serves to establish a standard of business conduct for all of The Financial Advisory Group’s Representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, The Financial Advisory Group also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by The Financial Advisory Group or any person associated with The Financial Advisory Group.

- B. As disclosed in Item 4.B, The Financial Advisory Group may recommend that certain of its qualified clients consider an investment, as limited partners, in KM-YH Partners, LP, KM-TS Partners, LP and/or KM-1488, LP (collectively the “*Partnerships*”), the purpose of the *Partnerships* being to own, develop, manage and operate commercial real estate. The Financial Advisory Group advises and consults the General Partners of the *Partnerships*, for and on behalf of the Limited Partners, regarding the structuring of the unit offerings and thereafter monitoring and reporting on the activities of the *Partnerships*. The *Partnerships* pay The Financial Advisory Group an hourly consulting fee for its services. The Financial Advisory Group does not have, nor will it exercise, any have discretionary authority to place any client assets in the *Partnerships*. Rather, The Financial Advisory Group’s role relative to the *Partnerships* shall be limited to its initial and ongoing due diligence and investment monitoring services. If a client determines to

become a *Partnership* investor, the amount of assets invested in the Partnership(s) shall be included as part of “assets under management” for purposes of The Financial Advisory Group calculating its investment advisory fee. The Financial Advisory Group’s clients are under absolutely no obligation to consider or make an investment in the Partnership(s).

Please Note: Because The Financial Advisory Group can earn both a consulting fee from the *Partnerships* and an investment advisory fee from the client, which, when taken together, may exceed the fee that The Financial Advisory Group would earn under its standard “assets under management” fee schedule referenced at Item 4.B above, the recommendation that a client become a *Partnership* investor presents a **conflict of interest**. No client is under any obligation to become a *Partnership* investor. **The Financial Advisory Group’s Chief Compliance Officer, Steven A. Estrin, remains available to address any questions regarding this conflict of interest.**

- C. The Financial Advisory Group and/or representatives of The Financial Advisory Group *may* buy or sell securities that are also recommended to clients. This practice may create a situation where The Financial Advisory Group and/or representatives of The Financial Advisory Group are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as “scalping” (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if The Financial Advisory Group did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, “front-running” (i.e., personal trades executed prior to those of The Financial Advisory Group’s clients) and other potentially abusive practices.

The Financial Advisory Group has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of The Financial Advisory Group’s “Access Persons”. The Financial Advisory Group’s securities transaction policy requires that an Access Person of The Financial Advisory Group must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person’s current securities holdings at least once each twelve (12) month period thereafter on a date The Financial Advisory Group selects; provided, however that at any time that The Financial Advisory Group has only one Access Person, he or she shall not be required to submit any securities report described above.

- D. The Financial Advisory Group and/or representatives of The Financial Advisory Group *may* buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where The Financial Advisory Group and/or representatives of The Financial Advisory Group are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11.C, The Financial Advisory Group has a personal securities transaction policy in place to monitor the

personal securities transaction and securities holdings of each of The Financial Advisory Group's Access Persons.

Item 12 Brokerage Practices

- A. In the event that the client requests that The Financial Advisory Group recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct The Financial Advisory Group to use a specific broker-dealer/custodian), The Financial Advisory Group generally recommends that investment management accounts be maintained at *Schwab* and/or *American*. Prior to engaging The Financial Advisory Group to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with The Financial Advisory Group setting forth the terms and conditions under which The Financial Advisory Group shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that The Financial Advisory Group considers in recommending *Schwab* and/or *American* (or any other broker-dealer/custodian to clients) include historical relationship with The Financial Advisory Group, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by The Financial Advisory Group's clients shall comply with The Financial Advisory Group's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where The Financial Advisory Group determines, in good faith, that the commission/transaction fee is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although The Financial Advisory Group will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, The Financial Advisory Group's investment management fee. The Financial Advisory Group's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

1. Research and Additional Benefits

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, The Financial Advisory Group may receive from *Schwab* (or another broker-dealer/custodian) without cost (and/or at a discount) support services and/or products, certain of which assist The Financial Advisory Group to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by The Financial Advisory Group may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by

The Financial Advisory Group in furtherance of its investment advisory business operations.

As indicated above, certain of the support services and/or products that *may* be received may assist The Financial Advisory Group in managing and administering client accounts. Others do not directly provide such assistance, but rather assist The Financial Advisory Group to manage and further develop its business enterprise.

The Financial Advisory Group's clients do not pay more for investment transactions effected and/or assets maintained at *Schwab* as a result of this arrangement. There is no corresponding commitment made by The Financial Advisory Group to *Schwab* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

The Financial Advisory Group's Chief Compliance Officer, Steven A. Estrin, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.

2. The Financial Advisory Group does not receive referrals from broker-dealers.
3. The Financial Advisory Group does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and The Financial Advisory Group will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by The Financial Advisory Group. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

Please Note: In the event that the client directs The Financial Advisory Group to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through The Financial Advisory Group.

The Financial Advisory Group's Chief Compliance Officer, Steven A. Estrin, remains available to address any questions that a client or prospective client may have regarding the above arrangement.

- B. To the extent that The Financial Advisory Group provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless The Financial Advisory Group decides to purchase or sell the same securities for several clients at approximately the same time. The Financial Advisory Group may (but is not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably

among The Financial Advisory Group's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. The Financial Advisory Group shall not receive any additional compensation or remuneration as a result of such aggregation.

Item 13 Review of Accounts

- A. For those clients to whom The Financial Advisory Group provides investment supervisory services, account reviews are conducted on an ongoing basis by The Financial Advisory Group's Principals and representatives. All investment supervisory clients are advised that it remains their responsibility to advise The Financial Advisory Group of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with The Financial Advisory Group on an annual basis.
- B. The Financial Advisory Group *may* conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients receive transaction confirmation notices on all trades and monthly summary account statements directly from the broker-dealer/custodian. The Financial Advisory Group provides a written quarterly report summarizing account holdings and performance.

Item 14 Client Referrals and Other Compensation

- A. As referenced in Item 12.A.1 above, The Financial Advisory Group may receive an indirect economic benefit from *Schwab*. The Financial Advisory Group, without cost (and/or at a discount), may receive support services and/or products from *Schwab*.

The Financial Advisory Group's clients do not pay more for investment transactions effected and/or assets maintained at *Schwab* as a result of this arrangement. There is no corresponding commitment made by The Financial Advisory Group to *Schwab* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

The Financial Advisory Group's Chief Compliance Officer, Steven A. Estrin, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.

- B. The Financial Advisory Group does not compensate, directly or indirectly, any person, other than its representatives, for client referrals.

Item 15 Custody

The Financial Advisory Group shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Financial Advisory Group may also provide a written periodic report summarizing account activity and performance.

Please Note: To the extent that The Financial Advisory Group provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by The Financial Advisory Group with the account statements received from the account custodian. **Please Also Note:** The account custodian does not verify the accuracy of The Financial Advisory Group's advisory fee calculation.

Item 16 Investment Discretion

The client can determine to engage The Financial Advisory Group to provide investment advisory services on a discretionary basis. Prior to The Financial Advisory Group assuming discretionary authority over a client's account, the client shall be required to execute an *Investment Advisory Agreement*, naming The Financial Advisory Group as the client's attorney and agent in fact, granting The Financial Advisory Group full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage The Financial Advisory Group on a discretionary basis may, at anytime, impose restrictions, **in writing**, on The Financial Advisory Group's discretionary authority. (i.e., limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe The Financial Advisory Group's use of margin, etc.).

Item 17 Voting Client Securities

- A. The Financial Advisory Group does not vote client proxies. Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets.
- B. Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact The Financial Advisory Group to discuss any questions they may have with a particular solicitation.

Item 18 Financial Information

- A. The Financial Advisory Group does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. The Financial Advisory Group is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. The Financial Advisory Group has not been the subject of a bankruptcy petition.

ANY QUESTIONS: The Financial Advisory Group's Chief Compliance Officer, Steven A. Estrin, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.