
Item 1 - Cover Page

CAPITAL FINANCIAL MANAGEMENT

INVESTMENT ADVISOR REGISTRATION BROCHURE

FORM ADV PART 2A

This Form ADV Part 2A (Investment Advisor Brochure) provides information about the qualifications and business practices of Kirk Roy Sheldon. It gives information about the investment advisor and its business for the use of clients and prospective clients. If you have any questions about the contents of this brochure, please contact us at (619) 295-4883. You may also send an e-mail to capfinmgt@earthlink.net. Registration with the Department of Corporations of the State of California is required for us as an investment advisor and does not imply a certain level of skill or training. This form has been filed in conjunction with ADV Part I with the Investment Adviser Registration Depository (IARD)

Kirk Roy Sheldon CFP®
CAPITAL FINANCIAL MANAGEMENT (CFM)
2221 Camino Del Rio South, Suite 303
San Diego, CA 92108
Telephone: (619) 295-4883
Fax: (619) 299-9344
capfinmgt@earthlink.net

This form is submitted for client review as the disclosure document for **CAPITAL FINANCIAL MANAGEMENT**, a Registered Investment Advisor. Any material changes require prompt filing of an amendment. Form ADV Part 2A is offered in its entirety each year to our clients.

June 1, 2012

Additional information about our firm is available on the SEC's website at: www.adviserinfo.sec.gov

Item 2 - Material Changes

This section summarizes material changes since the March 31, 2011, update of our brochure. Our annual updated brochure was last revised on March 27, 2012. Material changes to the ADV Part 2A Brochure are summarized below. Mr. Sheldon had been licensed with the broker/dealer Capital Growth Resources (CGR) since 1982. As of November 2011, CGR closed. All licensed general securities registered representatives are no longer licensed with CGR. Mr. Sheldon has elected to not re-register his General Securities Registered Representative Series 7 License with another Broker/Dealer. Mr. Sheldon continues the financial planning and investment advisory business, dba CAPITAL FINANCIAL MANAGEMENT, as a Registered Investment Advisor. Due to federal law changes, CAPITAL FINANCIAL MANAGEMENT has switched Registered Investment Advisor registration from the Securities and Exchange Commission to the California Department of Corporations.

Item 3 – Table of Contents

Item 1 – Cover Page.....	1
Item 2 – Material Changes.....	2
Item 3 – Table of Contents.....	2
Item 4 – Advisory Business.....	3
Item 5 – Fees and Compensation.....	6
Item 6 – Performance-Based Fees and Side-By-Side Management.....	8
Item 7 – Types of Clients.....	8
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	8
Item 9 – Disciplinary Information.....	10
Item 10 – Other Financial Industry Activities and Affiliations.....	10
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	11
Item 12 – Brokerage Practices.....	12
Item 13 – Review of Accounts.....	13
Item 14 – Client Referrals and Other Compensation.....	14
Item 15 – Custody.....	15
Item 16 – Investment Discretion.....	15
Item 17 – Voting Client Securities.....	15
Item 18 – Financial Information.....	16
Item 19 – Requirements for State Registered Advisors.....	16

Item 4 - Advisory Business

Advisory Firm

CAPITAL FINANCIAL MANAGEMENT (CFM) has been providing investment advisory services since 1994. Kirk Roy Sheldon is the founder/owner and has been in the financial services industry since 1977.

Education and Business Standards

The firm requires advisors to either demonstrate technical competency through accredited studies or by achieving industry recognized licensing requirement and experience.

CFP® and CERTIFIED FINANCIAL PLANNER™ are certification marks owned by the Certified Financial Planner Board of Standards, Inc. These marks are awarded to individuals who successfully complete the CFP Board's initial and ongoing certification requirements.

The initial certification requirements include four components:

1. Education – A bachelor's degree (or higher, or its equivalent) from an accredited college or university.
2. Examination – The CFP® Certification Examination assesses the ability to apply financial planning knowledge and assures a level of competency appropriate for professional practice.
3. Experience – Three years of full-time, relevant personal financial planning experience is required.
4. Ethics – Adherence to CFP® Board's Code of Ethics.

The certification renewal requirements include application, certification fees, and 30 hours of Continuing Education in financial planning topics and Ethics.

Education and Business Background

Kirk Roy Sheldon CFP®

Year of Birth - 1958

▪Education

Grossmont Community College, El Cajon, CA

AS/Business Administration/Real Estate

1983

San Diego State University, San Diego, CA

BS / MBA/Business Administration /Finance

1989 & 1992

▪Business:

THE CAPITAL GROUP, San Diego, CA: Sole Proprietor

CAPITAL FINANCIAL MANAGEMENT: Registered Investment Advisor

CAPITAL BROKERS: Real Estate Broker

CAPITAL PROPERTY MANAGEMENT: Property Manager

6/1987 – present

Capital Growth Resources, San Diego, CA: Registered Rep.

9/1982 – 11/2011

Guardian Brokers, San Diego, CA: Vice President

12/1977 – 3/1987

Advisory Services

CAPITAL FINANCIAL MANAGEMENT offers 5 types of personal financial advisory services.

1. “Segmented Financial Advisory Services” may include a written review or verbal consultations for specific financial/investment concerns of the client. This is a one-time service, which terminates upon delivery of the review or consultations. The fee may be at the hourly rate of \$200 or a pre-determined fixed fee, to be billed in arrears of services. Progress/installment payments may be billed in arrears of services.

2. “Coordinated Financial Plan” provides clients with a written document reviewing their financial goals and life objectives, evaluates and provides recommendations for a risk management program, income tax situation, investment portfolio, retirement planning, and estate planning. Clients will receive an estimate of fees, but will be billed in arrears at the hourly rate of \$200 up to a maximum fee quoted to the client based upon the client’s circumstances. Progress/installment payments may be billed in arrears of services. This is a one-time service, and the agreement terminates upon delivery of the Plan.

3. “Consulting Services” address issues of concern to the client that may be on-going in nature after the delivery of the Segmented Services or the Financial Plan. These services may include financial planning and investment advisory consultations on an intermittent basis, primarily upon the specific request of the client. These services may include but not be limited to: investment planning, tax planning, risk management, estate planning and investment review services. Clients will be billed periodically in arrears at the hourly rate or at a pre-determined fixed fee. The first payment is assessed and due at the end of the first calendar period and will be assessed pro-rata for any fixed fee in the event the agreement is executed at any time other than the first day of the current calendar period. Depending upon the nature and extent of services rendered, the advisor, at the advisor’s discretion, may bill client on a monthly or quarterly basis. The agreement is for a period of one year, and may be renewed for additional one-year periods. The agreement may be terminated at any time prior to the one-year date, and the client will be billed for fees due on a pro-rata basis.

4. “Investment Reporting and Review” is a service for clients that do not need active management of a portfolio, but desire a periodic monitoring and reporting based upon such factors as the complexity, size and activity in the account, at a minimum, the account will be reviewed and reports will be generated for clients periodically – monthly, quarterly, semi-annually or annually, as evidenced by the terms of the client agreement. A pre-determined fixed fee based on complexity and client need will be billed periodically in arrears. The agreement will continue until either party terminates the agreement upon immediate written notice, or as otherwise specified in the termination notice. If termination occurs prior to the end of a calendar period, the client will be invoiced for fees due on a pro-rata basis.

5. “Asset Management Services” provides for frequent monitoring of the investment portfolio. The Advisor and the client will formulate an investment plan with stated objectives and specific financial management parameters. The accounts will be reviewed at a minimum on a monthly basis, or more frequently, depending on market conditions. Clients receive a written quarterly report, which summarizes the activity that has taken place along with the beginning and ending account values. Reallocation of the portfolio will be made periodically, as deemed appropriate. Clients may elect to have the portfolio managed on a discretionary or non-discretionary basis, as evidenced by the terms of the agreement.

This service is a “fee-based” service, and the advisor will not receive commissions on the portfolio under this service. We manage investment advisory accounts not involving investment supervisory services. The client will select a discount broker or custodian to implement and hold the investment portfolio, which may include mutual funds, or individual equity and debt positions. The client may pay transaction fees or commissions to the discount broker or custodian in addition to the fees paid to the advisor. Fees are computed at a percentage of assets under management on a sliding scale.

<u>Portfolio Size</u>	<u>Annual %</u>
\$ 50,000 – 99,999	1.85%
100,000 – 249,999	1.35%
250,000 – 499,999	1.10%
\$500,000 – 999,999	1.00%
For accounts with values of one million and over:	
First \$1,000,000	1.00%
On next \$1,000,000	.75%
On next \$3,000,000	.50%
On next \$5,000,000	.375%
Amount over \$10,000,000	.25%

The fee will be payable quarterly in arrears. The first payment is assessed and due at the end of the first calendar quarter and will be assessed pro rata in the event the agreement is executed at any time other than the first day of the current calendar quarter. Subsequent payments are due and will be assessed on the first day after the end of each calendar quarter based on the value of the account assets under management as of the close of business on the last business day of that quarter. Fees on additions or withdrawals of capital may be prorated, subject to the terms of the Client Agreement.

Services will continue until either party terminates the Agreement on immediate written notice, or as otherwise specified in the termination notice. If termination occurs prior to the end of a calendar quarter, the client will be invoiced for fees due on a pro-rata basis.

As of December 31, 2011, CAPITAL FINANCIAL MANAGEMENT had \$602,000 of assets under management on a discretionary basis, and \$34,375,000 of assets under management on a non-discretionary basis.

Services are based on the individual needs of the client. An initial interview and data gathering questionnaire is often undertaken to determine the client's financial situation and investment objectives, and to give the client the opportunity to impose reasonable restrictions on the management of the account. Clients have the ability to leave standing instructions with the advisor to refrain from investing in particular securities or types of securities, or invest in limited amounts of securities. The advisor will contact or attempt to contact the client annually on these matters. It is the client's responsibility to notify the advisor at any time there are changes in the client's financial situation or investment objectives, or to impose or modify account restrictions. Clients may call in at any time during normal business hours to discuss directly with the advisor about the client's account, financial situation, or investment needs. Clients will receive from the custodian/brokerage firm timely confirmations and at least quarterly statements containing a description of all transactions and all account activity. The client will retain rights of ownership of all securities and funds in the account to the same extent as if the client held the securities and funds without our investment advisory services. In addition to custodial statements, CFM sends quarterly reports to the client.

By its nature, financial planning and asset allocation looks to the long-term. After we evaluate the client's short-term cash needs and emergency fund, we design investment and planning strategies to help the client achieve his or her financial goals. Life, disability and long-term care insurance are reviewed only at the client's request, and may be provided by either Kirk Roy Sheldon or outside firms. All other insurance, including casualty, homeowner's, auto, liability, etc., is reviewed only at the client's request, and would be provided by an outside casualty firm.

CFM may provide financial plans consistent with the individual client's financial and tax status and risk/reward objectives. Planning may be coordinated or segmented and focus on investments, insurance, taxes, and/or estate plans.

CFM may provide consulting services for business owners and provide business consultations not involving securities. This is separate from personal advisory services. Topics may include budgetary planning, succession planning, and/or business plans.

The advisor may conduct money management, retirement planning and financial planning seminars on behalf of learning institutions, or directly to the public. Fees for the seminars may go directly to the sponsoring institutions, and these fees would be set by the sponsor. When the advisor charges for seminars, the fees may range from \$25 - \$100 per participant. Lecture fees for speaking engagements may be substantially higher and may vary.

Item 5 - Fees and Compensation

A description of how we are compensated for our five types of personal financial advisory services is referenced and detailed above within the section headed "Advisory Services."

General Fee Disclosures

Payment of fees may be paid directly by the client, or payment of fees is made by the custodian holding the client's funds and securities. However, three criteria must be met when payment is made by the custodian: (1) The client provides written authorization permitting the fees to be paid directly from the client's account held by the independent qualified custodian; (2) CFM Fee Deduction Notice: Each time a fee is directly deducted from a client account, CFM concurrently sends: A) The qualified custodian notice of the amount of the fee to be deducted from the client's account; and B) The client an invoice itemizing the fee. Itemization includes the formula used to calculate the fee, the value of the assets under management on which the fee is based and the time period covered by the fee; and (3) The custodian agrees to send to the client a statement, at least quarterly, indicating all amounts disbursed from the account including the amount of advisory fees paid directly to CFM. CAPITAL FINANCIAL MANAGEMENT does not and will not have custody of client's funds or securities, other than under the terms of the Fee Payment Authorization clause in the Agreement with the client. The above disclosure is notice to the regulators that CFM intends to use the safeguards provided in the law and/or government regulations.

The advisor may perform advisory and/or brokerage functions for various other clients, and these other clients may be given advice or have actions taken that differ from the advice given or the timing or the nature of any action taken for another client's account.

Clients may incur certain charges imposed by third parties, other than advisory fees, including but not limited to, brokerage commissions, 12(b) 1 distribution fees on no-load mutual funds, certain deferred sales charges on previously purchased mutual funds, sales charges paid to the custodian firm, other transaction charges and services fees, and IRA and Qualified Retirement plan fees.

Fees may be negotiable. Fees are not collected for services to be performed more than six months in advance. Lower or higher fees may be found elsewhere for comparable advisory services.

The client may terminate the Agreement without penalty within the five business days of client signature on the agreement. This means that a full refund, if any or no fees due for services which are rendered within the first five days. After the first five days, services will continue until specified under services described above.

Any controversy or claim, including, but not limited to, errors and omissions arising out of or relating to our Agreement or the breach thereof, shall be settled by arbitration in California, in accordance with the securities arbitration rules then in effect with the American Arbitration Association. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. The Advisory Agreement contains a pre-dispute arbitration clause. Client understands that this agreement to arbitrate does not constitute a waiver of the right to seek a judicial forum, where such a waiver would be void under the federal securities laws. Arbitration is final and binding on the parties.

Fees for Consulting Services are computed at an hourly rate. Various rates apply as determined by the advisor and the person performing the service. After signing the Agreement, fees are payable upon billing by the advisor and the balance of any fees due upon the final delivery of the services.

These fees are for advisory services only and do not include any transaction fees or commissions, which may be charged separately by a broker/dealer custodial firm. See the section heading Brokerage Practices for more information.

Payment of fees may be paid direct by the client, or client may authorize the custodian holding client funds and securities to deduct CFM advisory fees direct from the client account in accordance with statements prepared and submitted to the client and custodian by CFM. The custodian will provide periodic account statements to the client. Such statements will reflect all fee withdrawals by CFM. It is the client's responsibility to verify the accuracy of the fee calculation. The custodian will not determine whether the fee is properly calculated.

CFM and its advisor do not double-dip and will either receive fee-based compensation or commissions on specified assets and products, or adjustments are made therein in certain client billing invoices. Mutual funds recommended under advisory services will be "no-load" or "load-waived." Clients are not obligated to purchase investment products recommended, or to purchase through our firm or affiliated firms.

In addition to fees paid for advisory services with respect to clients' investments in mutual funds, clients pay additional fees on the mutual fund investment because the mutual funds also pay advisory and/or management fees to an investment advisor.

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

CAPITAL FINANCIAL MANAGEMENT does not charge performance-based fees, which could be based on capital gains in the client account.

Performance-based compensation is a fee arrangement which may create an incentive for advisors to make investments that are riskier or more speculative than would be the case in the absence of a performance-based fee. Performance-based compensation may create an incentive to favor accounts paying the highest fees in the allocation of investment opportunities. CFM has a duty and written supervisory procedures to treat all clients fairly and to avoid and/or minimize conflicts of interest.

Item 7 - Types of Clients

CAPITAL FINANCIAL MANAGEMENT provides advisory services to individuals, couples, families, pension and profit sharing plans and other ERISA accounts, trusts, estates, or charitable organizations and corporations or business entities other than those listed above.

Conditions for Managing Accounts

Our fee schedule reflects that the minimum size account in the Asset Management Services program is \$50,000. The minimum account size may be negotiated. For the purpose of meeting this minimum, family related accounts may be aggregated.

Client may make additions to the account at any time and may withdraw account assets on notice to the advisor. In the event client withdrawals cause the account asset value to fall below the required minimum, the Agreement may be subject to immediate termination. The Asset Management program is designed as a long-term investment vehicle and asset withdrawals may impair the achievement of meeting the client's investment objectives.

There is no minimum for clients retaining other advisory services (i.e., Financial Plans and Consulting Services).

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

Methods of Analysis and Investment Strategies

We primarily utilize fundamental analysis. Analysis utilized may also include charting, technical, and cyclical. We may also evaluate the client's investments to determine whether they correspond with the client's financial objectives. We may design and propose a portfolio to help each client attain their financial goals. Throughout each year, we may attend industry and trade conferences, seminars and meetings. We consult professionals in financial planning, mutual funds, limited partnerships and variable annuities. We listen to, read and consult with various industry leaders to gain different opinions on financial and business affairs within the economic environment.

CAPITAL FINANCIAL MANAGEMENT obtains information from a wide variety of publicly available sources, including financial news and research materials. The main sources of information applicant uses include: financial newspapers and magazines, research materials prepared by others, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission and others. The advisors have no, and do not claim to have, sources of inside or private information.

The investment strategies used to implement any investment advice given to clients may include:

- Long-term purchases (securities held at least a year)
- Short-term purchases (securities sold within a year)
- Short sales (used selectively on a client-by client case basis)

- Margin transactions (based upon those clients having previously selected a margin account)
- Option writing, including covered options (used selectively on a client-by-client case basis)
- Other (CFM uses asset allocation strategies for portfolio management)

Types of Investments

Applicant offers advice on the following:

- Equity Securities
 - Exchange-listed securities
 - Securities traded over-the-counter
 - Foreign issues
- Corporate debt securities (other than commercial paper)
- Certificates of deposit
- Municipal securities
- Investment company securities
 - Variable life insurance
 - Variable annuities
 - Mutual fund shares
 - Exchange Traded Funds (ETFs)
- United States government securities
- Interest in Partnerships investing in:
 - Real Estate
 - Oil and gas interests

Other interests in partnerships would include such investments as equipment leasing, cable television, fast food franchising, agriculture, raw land, alternative energy, research/development and leveraged buy-outs. Other investments may include Real Estate Investment Trusts (REITs).

While there is risk in all investments, some carry a greater degree of risk or higher costs. There is no guarantee that the investment strategy selected for the client will result in the client's goals being met, nor is there any guarantee of profit or protection from loss. For those investments sold by prospectus, clients should read the prospectus in full.

CFM is disclosing those risks and opportunities for our investment strategy or for particular types of securities used:

- Debt securities are subject to interest rate risk.
- By timing the buys and sells, we endeavor to control some of the risks. Timing the markets has its own set of risks based upon the date of buy and sell trades and comparative market securities prices.
- There are tax consequences for short-term trading, wherein capital gains are taxed as ordinary income. Also, frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.
- Our investment style can vary in the amount of diversification in client accounts.
- Preferred Stocks are fixed income securities and are sensitive to interest rate changes and risks. They may have long-term maturities or have no stated maturity dates. They may have limited trading volume and contain other terms.
- Auction Rate Securities are floating rate debt securities (long-term, variable-rate corporate or municipal bonds) tied to short-term interest rates. ARS have a long-term nominal maturity with interest rates reset through an auction process ("Dutch auction")
- Structured products are a basket of investments that combine the upside potential of equity with the downside protections of fixed income. Structured products are complex and difficult for the average investor to understand. Structured products are used to hedge and speculate.

The investments and investment strategies described above by their nature all have risks. More than one risk may apply to an investment and/or investment strategy. These risks can include but not be limited to interest rate risks, market securities price risks, macro and micro economic risks, geopolitical and foreign country governmental and business risks, accounting differential risks, business risks, specific company risks, industry concentration risks, credit quality risks, timing risks, liquidity risks, purchasing power risks, lost opportunity risk and currencies and commodities valuation risks. In summary, investing in securities involves risk of loss, and clients should be prepared for price and valuation volatility and be prepared to bear the risks and rewards.

Item 9 - Disciplinary Information

An investment advisor must disclose material facts about any legal or disciplinary event that is material to a client's evaluation of the advisory business or of the integrity of its management personnel. CFM does not have any disclosure items.

Item 10 - Other Financial Industry Activities and Affiliations

If our clients purchase insurance or real estate products through us, we will receive the normal commissions or fees. Thus, a conflict exists between our interests and those of our advisory clients. The client is under no obligation to purchase products we recommend, or to purchase products through us.

CAPITAL FINANCIAL MANAGEMENT may exercise agreements with other Registered Investment Advisors and recommend other licensed Advisors to clients. In such instances, Capital Financial Management may receive a portion of the account fees or commissions. In these instances, we will make available to the client a "Compensation Disclosure Statement" and the Form ADV for the other Advisor. The client is under no obligation to use the services of the other Advisor(s) we recommend.

The principal of our firm is licensed with several life, disability and other insurance companies. We may recommend insurance products offered by these companies. If our clients purchase these products through us, we receive the normal commissions. Thus, a conflict of interest exists between our interests and those of our advisory clients. The client is under no obligation to purchase products we recommend, or to purchase products either through us or through these insurance companies.

Kirk R. Sheldon is licensed as a real estate broker, and may recommend the purchase of real estate, real estate notes, or trust deeds. If our clients purchase these properties or products, we may receive commissions or fees. Thus a conflict of interest exists between our interests and those of our advisory clients. The client is under no obligation to purchase real estate or real estate products through us.

General Partner Activities

Kirk R. Sheldon is one of the general partners in real estate general and limited partnerships, which were formed prior to establishing the registered investment advisor. These partnerships have invested in properties, notes, or trust deeds. There have been no new partnerships formed between 1995 and 2011, Kirk R. Sheldon and Capital Financial Management will not have custody of advisory clients funds or securities, other than under the terms of the Fee Payment Authorization Clause in the agreement with the client.

Other Business Activities

Kirk R. Sheldon has four “doing business as” (“dba”) names for a variety of business activities. It is anticipated that the percentage of time allocated between the various businesses are as follows: CAPITAL FINANCIAL MANAGEMENT (Registered Investment Advisor) 80%, CAPITAL BROKERS and CAPITAL PROPERTY MANAGEMENT (Real Estate brokerage and property management) 15%.

THE CAPITAL GROUP is not, but Kirk R. Sheldon is, licensed as an insurance agent, and is in the business of selling insurance products and consulting services. The sale of insurance sold through various unaffiliated insurance companies is 5% of the allocated time. These percentages are estimates only.

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

Code of Ethics

CAPITAL FINANCIAL MANAGEMENT maintains a Code of Ethics. The Code of Ethics sets forth standards of conduct expected of advisory personnel; requires compliance with federal and state securities laws; and, addresses conflicts that arise from personal trading by advisory personnel. Clients and/or potential clients may request a copy of the Code of Ethics.

Participation or Interest in Client Transactions

Under the advisory programs (i.e., Asset Management Services), when discount brokers or custodians are used to implement transactions, Kirk R. Sheldon will not participate in any fees or commission paid to the outside firms.

From time to time, Kirk R. Sheldon and/or CFM may recommend to their clients, the purchase of limited partnerships or mutual funds that are sponsored by CFM affiliated companies. This would be when the recommendation is suitable for the client and meets their investment objectives. Clients are not obligated to purchase these funds.

Personal Trading

At times Kirk R. Sheldon and/or CFM may invest in the same securities that are recommended to clients, and we will try to avoid conflicts with clients. The firm and its advisory affiliates will generally be “last in” and “last out” for the trading day when trading occurs in close proximity to client trades. We will not violate our fiduciary responsibilities to our clients. Scalping (trading shortly ahead of clients) is prohibited. Disclosure is made that a conflict could occur because of materiality (i.e. a thinly traded stock). Incidental trading not deemed to be a conflict (i.e. a purchase or sale which is minimal in relation to the total outstanding value, and as such would have negligible effect on the market price), would not be disclosed at the time of trading.

The Advisor is too small an investor to noticeably affect the market. In any case, the advisor will not “race” clients into limited partnership offerings. Clients may also request a copy of our firm’s complete Code of Ethics.

Item 12 - Brokerage Practices

Selection or recommendation of broker/dealers

Brokerage Recommendations

The advisor performs “due diligence” on investments and insurance policies. Only those investments that meet minimum requirements of high standards will be offered for sale to clients.

Soft Dollar Practice

CFM may receive compensation from a brokerage firm in the form of research, products or services (“soft dollars”). When a firm uses client brokerage commissions to obtain soft dollars, the firm receives a benefit by not having to produce or pay for such items. A firm may have an incentive to select or recommend a broker/dealer based on soft dollars received, rather than best execution for the client. This may represent a conflict of interest. CFM may receive soft dollar compensation from firms for both proprietary research services to include reports, software, and other information and/or research created or developed by a third party. Additionally, CFM may receive soft dollar compensation from firms for non-research services to include items such as software for administrative back office account services, transaction accounting systems, “informational meetings,” tax accounting reports, and/or performance evaluation systems, etc.

CFM understands its duty for best execution and considers all factors in making recommendations to clients. These research services may be useful in servicing all CFM clients, and may not be used in connection with any particular account that may have paid compensation to the firm providing such services. CFM does not seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts may generate. While CFM may not always obtain the lowest commission rate, CFM believes the rate is reasonable in relation to the value of the brokerage and research services provided.

Client Referrals from Brokers

Kirk R. Sheldon may maintain an existing broker/dealer relationship when the client is referred to CFM. In maintaining the existing broker/dealer relationship, a conflict of interest may exist in obtaining best execution by CFM on behalf of the client. A conflict of interest may exist in obtaining future referrals from a broker/dealer if CFM did not maintain these existing relationships. Where the client is not referred by an existing broker/dealer, CFM recommends a broker/dealer with competitive commission rates.

Directed Brokerage

For the Asset Management Services, we recommend, and our clients may choose to implement, trades through a discount broker or custodian. The recommendation is made based upon trading fees/commissions and execution services available to the client and the firms' competitiveness and industry reputation of quality, competence, effectiveness and responsiveness. Clients may pay transaction fees to the brokers/custodians for the purchase of "no-load" funds, as well as commissions as may be applicable. Brokerages and custodians provide clients with consolidated statements. We are not registered representatives of these outside discount brokerages or custodians, and do not receive any commissions or fees from recommending these services.

Client may direct brokerage to a specified broker/dealer other than the firm recommended by CFM. It is up to the client to negotiate the commission rate, as CFM will not. The client may not be able to negotiate the most competitive rate. As a result, CFM may be unable to achieve most favorable execution of client transactions, and the client may pay more than the rate available through the broker/dealer recommended by CFM. In client directed brokerage arrangements, the client may not be able to participate in aggregated ("blocked") trades, which may help reduce the cost of execution. Where the client does not otherwise designate a broker/dealer, again CFM recommends a broker/dealer with competitive commission rates.

Trade Aggregation

While individual client advice is provided to each account, client trades may be executed as a block trade. The Advisor encourages its existing and new clients to use the Advisor's "lead custodian." Only accounts in the custody of the lead custodian would have the opportunity to participate in aggregated securities transactions. Some trades using the lead custodian may be aggregated and done in the name of the Advisor. The executing broker will be informed that the trades are for the account of the Advisor's clients and not for the Advisor itself. No advisory account within the block trade will be favored over any other advisory account, and thus, each account will participate in an aggregated order at the average share price and receive the same commission rate. The Custodian will be notified of the amount of each trade for each account. The aggregation should, on average, reduce slightly the costs of execution, and the Advisor will not aggregate a client's order if in a particular instance the Advisor believes that aggregation would cause the client's cost of execution to be increased. The Advisor and/or its advisory affiliates may participate in block trades with clients, and may also participate on a pro rata basis for partial fills, but only if clients receive fair and equitable treatment. Oftentimes, we do not aggregate orders when the securities transaction order timing is most appropriate to implement on a timely basis rather than delaying client orders to assemble aggregate orders.

Item 13 - Review of Accounts

Generally the clients retaining services for "Coordinated Financial Plans" or "Segmented Financial Services" would not receive any scheduled reviews or on-going reports, unless we are specifically retained for these services by the client.

For "Consultation Services" and "Investment Reporting and Review," the frequency of review and extent of review is determined upon acceptance of the Agreement; based upon such factors as the complexity, size and activity in the account.

For "Investment Reporting and Review" at a minimum, an internal monthly, quarterly, semi-annual or annual review will be performed as evidenced by the terms of the client agreement.

For "Asset Management Services" the accounts and securities will be reviewed at a minimum on a monthly basis, or more frequently, depending on market conditions.

For “Consultation Services” verbal and/or written updates will be generated based on the precise services being requested and provided to each client.

For “Investment Reporting and Review,” and “Asset Management Services,” the clients will receive a written periodic or quarterly report which summarizes the activity that has taken place along with the beginning and ending account values.

CFM monitors the individual investments within the Asset Management Services. Portfolio performance is reviewed on a quarterly basis at a minimum. CFM offers Asset Management Services clients an in-person portfolio review meeting on an annual basis. Market conditions that might cause a wide variance in the specified asset allocation, or other factors could cause a more frequent review. The account reviews are performed by the client’s Advisor. The Chief Compliance Officer, Kirk R. Sheldon, and any other designated compliance staff monitor the portfolios and financial plans for investment objectives and other supervisory review. All clients receive standard account statements from investment sponsors, brokerage firms and independent custodians. Asset Management Services clients receive a written quarterly performance report from CFM.

Item 14 - Client Referrals & Other Compensation

Referral Fees Paid

Capital Financial Management may compensate for client referrals. All solicitor’s agreements are in compliance with the Investment Advisors Act of 1940 Section 275.206(4)-3. All fees are paid pursuant to the written solicitor’s agreement, to be retained by both the solicitor and our firm. All applicable federal and state laws will be observed. All clients procured by solicitors will be given full written disclosures describing the terms and fee arrangements between the advisor and the solicitor prior to or at the time of entering into the advisory agreement.

Referral Fees Received

CFM may exercise agreements with other Registered Investment Advisors and recommend other Advisors to clients. In such instances, CFM may receive a portion of the account fee or commissions. In these instances, we will make available to the client a "Compensation Disclosure Statement" and the Form ADV for the other Advisor. The client is under no obligation to use the services of the other Advisor(s) recommended.

In instances of a "wrap fee" program, clients will receive a Wrap Fee Brochure (Form ADV Part 2A Appendix 1) disclosures. The regulatory filing of the brochure is prepared by the outside money manager.

Other Compensation

It is possible that investment brokerage firms that custody client assets and/or investment securities sponsors, including mutual fund sponsors, may provide an economic benefit to CFM. This may represent a conflict of interest. This could include sales awards, low dollar value prizes, meals and/or meetings and/or inexpensive promotional give-away items. CFM, in general, minimizes the receipt of this type of compensation in our effort to eliminate or minimize conflicts of interest or the appearance of conflicts of interest.

Item 15 - Custody

CFM is deemed to have custody of client funds solely because of the fee deduction authority granted by the client in the investment advisory agreement. Clients will receive account statements at least quarterly from the broker-dealer or other qualified custodian. Client is urged to compare custodial account statements against statements prepared by CFM for accuracy. Minor variations may occur because of reporting dates, accrual methods of interest and dividends, and other factors. The custodial statement is the official record of your account for tax purposes.

Item 16 - Investment Discretion

Investment Authority: We may obtain the client consent for discretionary authority for the Asset Management Services, or the client may elect this service on a non-discretionary basis. The investment authority will be evidenced by the terms of the agreement with the client. CAPITAL FINANCIAL MANAGEMENT will not have authority to withdraw funds or to take custody of client funds or securities, other than under the terms of the Fee Payment Authorization clause in the Agreement with the client. Each and every Client Agreement will define the terms of the advisor engagement. These terms will evidence either a discretionary or nondiscretionary authority granted to the advisor, if applicable. Any limitations clients may place on this authority will also be defined in writing. The procedures followed by the advisor include the client executing a limited power of attorney as to the securities and amount of securities, usually evidenced in the clients' investment brokerage account documentation.

The client will designate the broker/dealer to be used for trading and custodial services. CAPITAL FINANCIAL MANAGEMENT may "trade away" for bond transactions in order to seek best execution. The bonds will be custodied at the broker/dealer designated by the client under a prime brokerage arrangement.

Item 17 - Voting Client Securities

Voting Policies and Procedures: Due to the nature of CFM's investment advisory services, CFM generally has clients maintain 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. Clients typically receive proxy materials directly from the custodian. Questions about proxies may be made via the contact information on the cover page.

However, the clients may elect by their filling out the appropriate sections of their investment brokerage account applications, to have their advisor, CFM vote proxies and other matters. In this event, initiated and based upon the client's written account documentation, CFM may have the authority to vote proxies, unless the client otherwise specifically directs. Clients may contact us direct at the phone number or address listed on the first page of this document to obtain information on how CFM voted on behalf of the client. CFM votes proxies in the best economic interest of the client, and not in the interest of our firm. While it is unlikely that we will have a material conflict when voting client proxies, a conflict could arise from time to time. We can resolve such conflicts to include but not limited to: Documenting that votes were cast in the interest of the client; informing the client to obtain objective third party advice; obtaining client's informed consent to vote a proxy in a specific manner. If seeking a client's consent, we will provide the client with sufficient information regarding the matter and the nature of the conflict to enable the client to make an informed decision. Specifically, the advisor, CFM, may at their discretion, unilaterally decide whether or not to vote proxies and on other matters. Often, there may be times when refraining from voting a proxy is in the client's best interest, such as when the cost of voting exceeds the expected benefit to the client.

Item 18 - Financial Information

An investment advisor must provide financial information if a threshold of fee prepayments is met; there is a financial condition likely to impair the ability to meet contractual commitments; or, a bankruptcy within the past ten years. CFM does not have any disclosure items in this section.

Item 19 - Requirements for State Registered Advisors

Kirk R. Sheldon, the applicant, is actively engaged in a business other than giving investment advice. This includes, as listed earlier in this brochure, that some of the principal business of the applicant involves the marketing of products or services, including consulting, other than investment advice.

- Identification of Principal Officers and backgrounds: Disclosed under Item 4 – Advisory Business – Page 3
- Other Business Activities: Disclosed under Item 10 – Other Financial Industry Activities and Affiliations Pages 10 and 11
- Performance-based Fees – Disclosed under Item 6 – Performance-based Fees and Side-by-Side Management – Page 8
- Disclosure Events – Disclosed under Item 9 – Disciplinary Information – Page 10
- Relationship with Issuer of Securities – Disclosed under Item 12 – Brokerage Practices – Pages 12 and 13

Form ADV: Part 2B, which is a separate brochure, routinely includes Items 5, 6 and 7, which are listed below. Since our firm is not obligated to file a separate Form ADV Part 2B, these disclosures (Items 5, 6 and 7) are required to be listed here, in ADV Part 2A.

- Additional Compensation: Item 5 – Kirk R. Sheldon does not receive economic benefits for providing investment advisory services other than by Capital Financial Management.
- Supervision: Item 6 – Kirk R. Sheldon is responsible for developing investment policy, portfolio allocation and investment securities selection and is responsible for all supervision. Kirk R. Sheldon functions as Chief Compliance Officer of the firm.
- Requirements for State Registered Advisors: Item 7 – Kirk R. Sheldon does not have any further information required to be disclosed under this item.