

# Farah Financial Services, LLC

## **Brochure Dated 6/19/2012**

Contact: Michael P. Farah, Chief Compliance Officer  
511 East Balboa Blvd.  
Newport Beach, California 92661  
[www.farahas.com](http://www.farahas.com)

**This Brochure provides information about the qualifications and business practices of Farah Financial Services, LLC (“Farah Financial”). If you have any questions about the contents of this brochure, please contact us at (949) 719-2625 or [mike@farahas.com](mailto:mike@farahas.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 Farah Financial Services, LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**References herein to Farah Financial Services, LLC 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**

The only material changes made to Farah Financial Services, LLC's disclosure statement since last year's Annual Amendment filing on March 31, 2011 is that Farah Financial Services is transitioning from SEC registration to California state registration.

## **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 .....	5
Item 6	Performance-Based Fees and Side-by-Side Management .....	6
Item 7	Types of Clients.....	6
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss.....	7
Item 9	Disciplinary Information .....	8
Item 10	Other Financial Industry Activities and Affiliations .....	8
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	8
Item 12	Brokerage Practices .....	9
Item 13	Review of Accounts.....	11
Item 14	Client Referrals and Other Compensation.....	12
Item 15	Custody.....	12
Item 16	Investment Discretion.....	13
Item 17	Voting Client Securities.....	13
Item 18	Financial Information .....	13
Item 19	Requirements for State-Registered Advisors.....	14

## Item 4            Advisory Business

- A. Farah Financial is a limited liability company formed on December 16, 2004 in the State of Delaware. Farah Financial became registered as an Investment Adviser Firm in January 2005. Farah Financial is owned by Michael P. Farah, Farah Financial's Managing Member.
- B. As discussed below, Farah Financial offers to its clients (individuals, business entities, trusts, estates, charitable organizations and pension and profit sharing plans, etc.) investment advisory services. Farah Financial **does not** hold itself out as providing financial planning or consultation services.

### INVESTMENT ADVISORY SERVICES

The client can determine to engage Farah Financial to provide discretionary investment advisory services on a wrap fee basis. (*See* discussion below). If a client determines to engage Farah Financial on a wrap fee basis, the client will pay a single fee for bundled services (i.e. investment advisory, brokerage, custody).

Farah Financial's annual investment advisory fee shall include investment advisory services, and, to the extent specifically requested by the client, **limited** financial planning and consulting services. In the event that the client requires extraordinary planning and/or consultation services (to be determined in the sole discretion of Farah Financial), Farah Financial may determine to charge for such additional services, the dollar amount of which shall be set forth in a separate written notice to the client.

### FARAH FINANCIAL SERVICES, LLC WRAP PROGRAM

Farah Financial provides investment management services on a wrap fee basis in accordance with Farah Financial's investment management wrap fee program (the "Program"). The services offered under, and the corresponding terms and conditions pertaining to, the Program are discussed in the Wrap Fee Program Brochure a copy of which is presented to all prospective Program participants. Under the Program, Farah Financial is able to offer participants discretionary investment management services for a single specified annual Program fee, inclusive of trade execution, custody, reporting, and investment management fees. The current annual Program fee is 1.15% of the Program assets placed under Farah Financial's management. The terms and conditions for client participation in the Program are set forth in detail in the Wrap Fee Program Brochure, which is presented to all prospective Program participants in accordance with the disclosure requirements of Part 2A Appendix 1 of Form ADV. The Wrap Fee Program Brochure is incorporated into this Brochure by reference. All prospective Program participants should read both Farah Financial's Brochure and the Wrap Fee Program Brochure, and ask any corresponding questions that they may have, prior to participation in the Program.

Merrill Lynch ("*Merrill*") shall serve as the custodian for Program accounts.

**Additional Wrap Fee Disclosure.** The portion of the Wrap Fee charged for *Merrill's* services are for custodianship of securities, accounting and execution of transactions. *Merrill* may charge for additional services requested by clients. Such services may include cash management accounts, trusts, corporation accounts, federal wires, overnight requests and trade away settlement fees. A complete list of additional fees for unusual

transactions will be available by request or can be found on Farah Financial's website at [www.Farahas.com](http://www.Farahas.com). Currently, *Merrill* charges approximately .075% annually of account balances and 2 cents a share per transaction. The total *Merrill* costs have averaged only approximately 0.15% of the annual account value. Farah Financial's 1.00% annual advisory is billed quarterly. The total average cost to Farah Financial's clients has averaged 1.15% annually (*Merrill* average of 0.15% and Farah Financial's 1.00% annual advisory fee).

**Please Note:** As indicated in the Wrap Fee Program Brochure, participation in the Program may cost more or less than purchasing such services separately. As also indicated in the Wrap Fee Program Brochure, the Program fee charged by Farah Financial for participation in the Program may be higher or lower than those charged by other sponsors of comparable wrap fee programs.

#### **MISCELLANEOUS**

**Limited Consulting/Implementation Services.** Although Farah Financial does not hold itself out as providing financial planning, estate planning or accounting services, to the extent specifically requested by the client, Farah Financial *may* provide limited consultation services to its investment management clients on investment and non-investment related matters, such as estate planning, tax planning, insurance, etc. Farah Financial shall not receive any separate or additional fee for any such consultation services. Neither Farah Financial, nor any of its representatives, serves as an attorney, accountant, or licensed insurance agent, and no portion of Farah Financial's services should be construed as same. To the extent requested by a client, Farah Financial may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance agents, 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 Farah Financial. **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.

**Celebrity Foundation for Children.** Farah Financial's President, Michael P. Farah, serves as Chairman of the Celebrity Foundation for Children (the "Foundation"), a tax exempt charity under section 501(c)3 of the Internal Revenue Code. In the event that any client of Farah Financial determines to make a donation to the Foundation, he/she/it should be aware of Mr. Farah's association therewith.

**Trade Error Policy.** Farah Financial shall reimburse accounts for losses resulting from Farah Financial's trade errors, but shall not credit accounts for such errors resulting in market gains. The gains and losses are reconciled within Farah Financial's custodian firm account and Farah Financial retains the net gains and losses.

**Client Obligations.** In performing its services, Farah Financial 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 Farah Financial if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Farah Financial's previous recommendations and/or services.

**Disclosure Statement.** A copy of Farah Financial'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*.

- C. Farah Financial 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, Farah Financial 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 Farah Financial's services.
- D. Farah Financial only provides investment advisory services on a wrap fee basis. If a client determines to engage Farah Financial on a wrap fee basis the client will pay a single fee for bundled services (i.e. investment advisory, brokerage, custody) (*See* Item 4.B). The services included in a wrap fee agreement will depend upon each client's particular need. **Please Note:** When managing a client's account on a wrap fee basis, Farah Financial shall receive as payment for its investment advisory services, the balance of the wrap fee after all other costs incorporated into the wrap fee have been deducted.
- E. As of December 31, 2011, Farah Financial had \$50,000,000 in assets under management on a discretionary basis.

## **Item 5 Fees and Compensation**

- A. The client can determine to engage Farah Financial to provide discretionary investment advisory services on a wrap fee basis. Farah Financial **does not** hold itself out as providing financial planning or consultation services.

### **FARAH FINANCIAL SERVICES, LLC WRAP PROGRAM FEES**

If a client determines to engage Farah Financial to provide investment management services on a wrap fee basis in accordance with Farah Financial's Program, the services offered under, and the corresponding terms and conditions pertaining to, the Program are discussed in the Wrap Fee Program Brochure, a copy of which is presented to all prospective Program participants. Under the Program, Farah Financial is able to offer participants discretionary investment management services, for a single specified annual Program fee, inclusive of trade execution, custody, reporting, and investment management fees. The current annual Program fee is 1.15% of the assets placed under Farah Financial's management.

- B. Clients may elect to have Farah Financial's advisory fees deducted from their custodial account. Both Farah Financial's *Investment Advisory Agreement* and the custodial/clearing agreement may authorize the custodian to debit the account for the amount of Farah Financial's investment advisory fee and to directly remit that management fee to Farah Financial in compliance with regulatory procedures. In the limited event that Farah Financial bills the client directly, payment is due upon receipt of Farah Financial's invoice. Farah Financial shall deduct fees and/or bill clients quarterly in arrears, based upon the market value of the assets on the last business day of the previous quarter.

- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, Farah Financial shall generally recommend that *Merrill* serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as *Merrill* 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). With respect to Program participants, transaction fees and commissions are included in the annual Program fee. When beneficial to the client, individual fixed-income and/or equity transactions may be effected through broker-dealers with whom Farah Financial 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 *Merrill*).
- D. Farah Financial's annual investment advisory fee (including the Program fee) shall be prorated and paid quarterly, in arrears, based upon the market value of the assets on the last business day of the previous quarter. Farah Financial does not generally require an annual minimum fee or asset level for investment advisory services. Farah Financial, in its sole discretion, may charge a lesser investment management 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.).

The *Investment Advisory Agreement* between Farah Financial 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, Farah Financial shall debit the account for the pro-rated portion of the unpaid advanced advisory fee based upon the number of days that services were provided during the billing quarter.

- E. Neither Farah Financial, nor its representatives accept compensation from the sale of securities or other investment products.

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

Neither Farah Financial nor any supervised person of Farah Financial accepts performance-based fees.

## **Item 7            Types of Clients**

Farah Financial's clients shall generally include individuals, business entities, trusts, estates, charitable organizations and pension and profit sharing plans. Farah Financial does not generally require an annual minimum fee or asset level for investment advisory services. Farah Financial, in its sole discretion, may charge a lesser investment management 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. Farah Financial may utilize the following methods of security analysis:

- Charting - (analysis performed using patterns to identify current trends and trend reversals to forecast the direction of prices)
- Fundamental - (analysis performed on historical and present data, with the goal of making financial forecasts)
- Technical – (analysis performed on historical and present data, focusing on price and trade volume, to forecast the direction of prices)
- Cyclical – (analysis performed on historical relationships between price and market trends, to forecast the direction of prices)

Farah Financial 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)

**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 Farah Financial) will be profitable or equal any specific performance level(s).

B. Farah Financial'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 Farah Financial must have access to current/new market information. Farah Financial has no control over the dissemination rate of market information; therefore, unbeknownst to Farah Financial, certain analyses may be compiled with outdated market information, severely limiting the value of Farah Financial'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.

Farah Financial'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, Farah Financial may also implement and/or recommend the use of margin, a strategy that has a high level of inherent risk.

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 Farah Financial 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 Farah Financial 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 Farah Financial. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

- C. Currently, Farah Financial primarily allocates client investment assets among various individual equity (stock) and fixed income securities and mutual funds on a discretionary basis in accordance with the client's designated investment objective(s).

## **Item 9           Disciplinary Information**

Farah Financial has not been the subject of any disciplinary actions. Michael Farah has been named in one customer arbitration claim within the past ten years in which an award of more than \$2,500 was granted.

- On October 21, 2002, a client filed for arbitration against Michael Farah's former employer, Wedbush Morgan Securities, Inc. and Michael Farah, alleging that misrepresentations were made with respect to the recommendation of Mutual Fund "B" Shares. On April 22, 2005, a panel awarded compensatory damages to the client.

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

- A. Neither Farah Financial, 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 Farah Financial, 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. Farah Financial does not have any other relationship or arrangement with a related person that is material to its advisory business.
- D. Farah Financial 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. Farah Financial maintains an investment policy relative to personal securities transactions. This investment policy is part of Farah Financial's overall Code of Ethics,



which serves to establish a standard of business conduct for all of Farah Financial's Representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

Farah Financial also maintains and enforces policies reasonably designed to prevent the misuse of material non-public information by Farah Financial or any person associated with Farah Financial.

- B. Neither Farah Financial nor any related person of Farah Financial recommends, buys, or sells for client accounts, securities in which Farah Financial or any related person of Farah Financial has a material financial interest.
- C. Farah Financial and/or representatives of Farah Financial *may* buy or sell securities that are also recommended to clients. This practice may create a situation where Farah Financial and/or representatives of the firm 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 Farah Financial 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 Farah Financial's clients) and other potentially abusive practices.

Farah Financial has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of Farah Financial's "Access Persons." Farah Financial's securities transaction policy requires that an Access Person of Farah Financial 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 Farah Financial selects; provided, however that at any time that Farah Financial has only one Access Person, he or she shall not be required to submit any securities report described above.

- D. Farah Financial and/or representatives of Farah Financial *may* buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where Farah Financial and/or representatives of the firm 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, Farah Financial has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Farah Financial's Access Persons.

## **Item 12      Brokerage Practices**

- A. In the event that the client requests that Farah Financial recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct Farah Financial to use a specific broker-dealer/custodian), Farah Financial generally recommends that investment management accounts be maintained at *Merrill*.

Prior to engaging Farah Financial to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with Farah Financial setting forth the terms and conditions under which Farah Financial shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that Farah Financial considers in recommending *Merrill* (or any other broker-dealer/custodian to clients) include historical relationship with Farah Financial, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by Farah Financial's clients shall comply with Farah Financial'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 Farah Financial 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 Farah Financial 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, Farah Financial's investment management fee. Farah Financial'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, Farah Financial may receive from *Merrill* (or another broker-dealer/custodian) without cost (and/or at a discount) support services and/or products, certain of which assist Farah Financial to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by Farah Financial 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 Farah Financial 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 Farah Financial in managing and administering client accounts. Others do not directly provide such assistance, but rather assist Farah Financial to manage and further develop its business enterprise.

Farah Financial's clients do not pay more for investment transactions effected and/or assets maintained at *Merrill* as a result of this arrangement. There is no corresponding commitment made by Farah Financial to *Merrill* 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.

**Farah Financial's Chief Compliance Officer, Michael P. Farah, 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. Farah Financial does not receive referrals from broker-dealers.
3. Farah Financial 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 Farah Financial 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 Farah Financial. 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 Farah Financial 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 Farah Financial.

**Farah Financial's Chief Compliance Officer, Michael P. Farah, remains available to address any questions that a client or prospective client may have regarding the above arrangement.**

- B. To the extent that Farah Financial provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless Farah Financial decides to purchase or sell the same securities for several clients at approximately the same time. Farah Financial 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 Farah Financial'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. Farah Financial 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 Farah Financial provides investment supervisory services, account reviews are conducted on an ongoing basis by Farah Financial's Principals and/or representatives. All investment supervisory clients are advised that it remains their responsibility to advise Farah Financial 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 Farah Financial on an annual basis.

- B. Farah Financial *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 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. Farah Financial may also provide a written periodic report summarizing account activity and performance.

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

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

Farah Financial's clients do not pay more for investment transactions effected and/or assets maintained at *Merrill* as a result of this arrangement. There is no corresponding commitment made by Farah Financial to *Merrill* 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.

**Farah Financial's Chief Compliance Officer, Michael P. Farah, 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. Farah Financial does not compensate, directly or indirectly, any person, other than its representatives, for client referrals.

#### **Item 15      Custody**

Farah Financial 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. Farah Financial may also provide a written periodic report summarizing account activity and performance. Farah Financial sends a copy of each client invoice to the custodian at the same time it sends a copy to the client.

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

Although Farah Financial does not hold itself out to its clients as a custodian, Mr. Farah has, in his individual capacity, accepted a roll as trustee for several client trusts. As a result of these relationships, Farah Financial is subject to surprise audits by unaffiliated Certified Public Accountants. For more information concerning Farah Financial's custody audit please contact Farah Financial's Chief Compliance Officer, Michael Farah, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.

#### **Item 16 Investment Discretion**

The client can determine to engage Farah Financial to provide investment advisory services on a discretionary basis. Prior to Farah Financial assuming discretionary authority over a client's account, client shall be required to execute an *Investment Advisory Agreement*, naming Farah Financial as client's attorney and agent in fact, granting Farah Financial 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 Farah Financial on a discretionary basis may, at anytime, impose restrictions, **in writing**, on Farah Financial'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 Farah Financial's use of margin, etc.).

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

- A. Farah Financial 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 Farah Financial to discuss any questions they may have with a particular solicitation.

#### **Item 18 Financial Information**

- A. Farah Financial does not solicit fees of more than \$500 per client, six months or more in advance.
- B. Farah Financial 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. Farah Financial has not been the subject of a bankruptcy petition.

## **Item 19            Requirements for State-Registered Advisors**

- A. Michael Paul Farah is Farah Financial's Principal and Chief Compliance Officer. For more information about Mr. Farah, please see Mr. Farah's Brochure Supplement to Farah Financial's Brochure.
- B. Farah Financial is not actively engaged in any other business, other than as set forth herein.
- C. Neither Farah Financial, nor its representatives, accepts performance-based fees.
- D. Farah Financial has not been the subject of any disciplinary actions. Michael Farah has been involved with the following customer complaints, arbitrations and/or settlements for more than \$2,500 in the past ten years:
- On October 21, 2002, a client filed for arbitration against Michael Farah's former employer, Wedbush Morgan Securities, Inc. and Michael Farah, alleging that misrepresentations were made with respect to the recommendation of Mutual Fund "B" Shares. On April 22, 2005, a panel awarded compensatory damages to the client.
  - On May 6, 2005, a client filed for arbitration against Michael Farah's former employer, Wedbush Morgan Securities, Inc. and Michael Farah, alleging misrepresentation of collateralized mortgage options and the firm's failure to supervise Mr. Farah. The matter was settled on October 11, 2006, with the settlement amount paid solely by Wedbush Morgan Securities to the plaintiff.
  - On May 23, 2005, a client alleged that Michael Farah misrepresented the nature, quality and safety of certain Collateralized Mortgage Options that went into default. The matter was settled effective December 8, 2005.
  - On September 6, 2005, a client filed a complaint against Michael Farah in the State of California Superior Court for the County of Los Angeles, alleging unsuitable sales of Collateralized Mortgage Options, negligence, breach of fiduciary duty, misrepresentation and unfair business practices. The matter was settled effective September 26, 2006.
  - On April 5, 2006, a client filed for arbitration against Michael Farah's former employer, Wedbush Morgan Securities, Inc. alleging that Collateralized Mortgage Obligations were misrepresented and that Wedbush Morgan Securities, Inc failed to supervise Michael Farah, who was not named in the complaint. The matter settled effective October 11, 2006, with the settlement amount paid solely by Wedbush Morgan Securities.

Except as provided above, there have been no other events that transpired that would be material to a client or prospective client's evaluation of Farah Financial.

- E. Neither Farah Financial, nor its representatives, has any relationship or arrangement with any issuer of securities.

**ANY QUESTIONS: Farah Financial's Chief Compliance Officer, Michael Paul Farah, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**