

## **Firm Brochure**

(Part 2A of Form ADV)

### **Veripax Financial Management, LLC**

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This brochure provides information about the qualifications and business practices of Veripax Financial Management, LLC (VFM or Veripax). If you have any questions about the contents of this brochure, please contact us at: 916-358-5635, or by email at: [info@veripax.net](mailto:info@veripax.net). 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.

06/13/2012

## Material Changes

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### Annual Update

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

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### Material Changes since the Last Update

Primary changes since the last filing in March, 2012 include

- Transition from State registration to SEC registration
- Addition of investment advisor responsibilities for a “1940-Act” Mutual Fund
- New proxy voting guidelines

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### Full Brochure Available

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: 916-358-5635 or by email at: [info@veripax.net](mailto:info@veripax.net).

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# Advisory Business

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## **Firm Description**

Veripax Financial Management, LLC, ("VFM") was founded in 2006.

VFM provides personalized confidential financial planning and investment management to individuals, pension and profit sharing plans, trusts, estates, charitable organizations and small businesses. Advice is provided through consultation with the client and may include: determination of financial objectives, identification of financial problems, cash flow management, tax planning, insurance review, investment management, education funding, retirement planning, and estate planning.

VFM also serves as the Investment Adviser to an investment company registered under the Investment Company Act of 1940 (a '40-Act mutual fund).

VFM is a fee-only financial planning and investment management firm. The firm does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. The firm is not affiliated with entities that sell financial products or securities. Commissions are not accepted. In rare instances, a due diligence fee may be accepted for investments that are only available as a direct purchase by clients. In these cases, the fee is disclosed to clients before they make a purchase.

Investment advice is an integral part of financial planning. In addition, VFM advises clients regarding cash flow, college planning, retirement planning, tax planning and estate planning.

Investment advice is provided and trades are executed with discretionary authority following an initial strategy review with the client. VFM does not act as a custodian of client assets. The client always maintains asset control. VFM places trades for clients under a limited power of attorney. In most cases, VFM will implement the equity strategy via a '40-Act Mutual Fund (currently in the process of registration) for which it serves as advisor. Because advisory fees are included as part of the Fund expenses, client funds that are allocated to the Fund are not included as assets under management for VFM fee calculation purposes.

Periodic reviews are communicated to provide reminders of the specific courses of action that need to be taken. More frequent reviews occur but are not necessarily communicated to the client unless immediate changes are recommended.

Other professionals (e.g., lawyers, accountants, insurance agents, etc.) are engaged directly by the client on an as-needed basis. Conflicts of interest will be disclosed to the client in the unlikely event they should occur.

The initial meeting, which may be by telephone, is free of charge and is considered an exploratory interview to determine the extent to which financial planning and investment management may be beneficial to the client.

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**Principal Owners**

Jerry Verseput is the sole owner of VFM.

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**Types of Advisory Services**

VFM provides investment supervisory services, also known as asset management services; manages investment advisory accounts not involving investment supervisory services; and furnishes investment advice through consultations.

On more than an occasional basis, VFM furnishes advice to clients on matters not involving securities, such as financial planning matters.

As of June, 2012, VFM manages approximately \$34M in assets for approximately 80 clients. All assets are managed on a discretionary basis.

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**Tailored Relationships**

The goals and objectives for each client are discussed prior to any investment management implementation. In some cases based on the preference expressed by the client, a brief Investment Policy Statement will be created to document the targeted risk level and investment objectives.

Agreements may not be assigned without client consent.

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**Types of Agreements**

The following agreements define the typical client relationships.

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**Financial Planning Agreement**

A financial plan is designed to help the client with all aspects of financial planning with or without ongoing investment management after the financial plan is completed.

The financial plan may include, but is not limited to: a net worth statement; a review of investment accounts, including reviewing asset allocation and providing repositioning recommendations; strategic tax planning; a review of retirement accounts and plans including recommendations; a review of insurance policies and recommendations for changes, if necessary; one or more retirement scenarios; estate planning review and recommendations; and education planning with funding recommendations.

Detailed investment advice and specific recommendations are provided as part of a financial plan. Implementation of the recommendations is at the discretion of the client unless a separate Investment Advisor Agreement is in place.

The fee for a financial plan is predicated upon the facts known at the start of the engagement. The minimum fee is \$850 and is negotiable. Since financial

planning is a discovery process, situations occur wherein the client is unaware of certain financial exposures or predicaments.

In the event that the client's situation is substantially different than disclosed at the initial meeting, a revised fee will be provided for mutual agreement. The client must approve the change of scope in advance of the additional work being performed when a fee increase is necessary.

After delivery of a financial plan, future face-to-face meetings may be scheduled as necessary for up to one month.

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**Investment Advisory Agreement**

Most clients choose to have VFM manage their assets in order to obtain ongoing in-depth advice and wealth management. All aspects of the client's financial affairs are reviewed. As goals and objectives change over time, suggestions are made and implemented on an ongoing basis.

The annual Investment Advisory Agreement fee is based on a percentage of the investable assets according to the following schedule:

If aggregate account value is less than \$400,000, the fee is 1.10%

If aggregate account value is greater than \$400,000:

1.00% on the first \$1,000,000;

0.75% on the next \$2,000,000 (from \$1,000,001 to \$3,000,000)

0.50% on anything over \$3,000,000

Current client relationships may exist where the fees are higher or lower than the fee schedule above.

Although the Investment Advisory Agreement is an ongoing agreement and constant adjustments are required, the length of service to the client is at the client's discretion. The client or the investment manager may terminate an Agreement by written notice to the other party. At termination, fees will be billed on a pro rata basis for the portion of the quarter completed. The portfolio value at the time notice is received is used as the basis for the fee computation, adjusted for the number of days during the billing quarter prior to termination.

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**One-time Project Agreement (Portfolio Allocation; 401(k) Allocation)**

On occasion, clients will require a limited-scope plan that includes only a portion of a comprehensive financial plan. In these instances, a Project Agreement will be prepared that documents the work to be performed and the fee that will be charged. The fee for these projects will be based on the complexity of the work and the time estimated to complete project; however, the fee quoted will be a fixed fee. If, during the course of the project, the



client requests a change in the scope of the project, a revised fee will be provided for mutual agreement. The client must approve the change of scope in advance of the additional work being performed when a fee increase is necessary.

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### **Hourly Planning Engagements**

VFM provides hourly planning services for clients who need advice on a limited scope of work. The hourly rate for limited scope engagements is \$200/hour.

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### **Asset Management**

Assets are invested primarily in no-load mutual funds and exchange-traded funds, usually through discount brokers or fund companies. In most cases, investments will include a mutual fund which is directly managed by Veripax Financial Management (currently in the process of registration). Discount brokerages may charge a transaction fee for the purchase of some funds.

Stocks and bonds may be purchased or sold through a brokerage account when appropriate. The brokerage firm charges a fee for stock and bond trades. VFM does not receive any compensation, in any form, from fund companies.

Investments may also include: equities (stocks), warrants, corporate debt securities, certificates of deposit, municipal securities, investment company securities (variable life insurance, variable annuities, and mutual funds shares), U. S. government securities, options contracts, futures contracts, and interests in partnerships.

Initial public offerings (IPOs) are not available through VFM.

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### **Termination of Agreement**

A Client may terminate any of the aforementioned agreements at any time by notifying VFM in writing and paying the rate for the time spent on the investment advisory engagement prior to notification of termination.

VFM may terminate any of the aforementioned agreements at any time by notifying the client in writing.

## **Fees and Compensation**

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### **Description**

VFM bases its fees on a percentage of assets under management, hourly charges, and fixed fees.

Some *Retainer Agreements* may be priced based on the complexity of work, especially when asset management is not the most significant part of the relationship.

Financial plans are priced according to the degree of complexity associated with the client's situation.

Fees are negotiable

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**Fee Billing**

Investment management fees are billed quarterly, in arrears, meaning that we invoice you after the three-month billing period has ended. Fees are deducted from a designated client account to facilitate billing. The client must consent in advance to direct debiting of their investment account.

Fees for financial plans are generally due upon delivery of the financial plan. However, for complex plans, VFM may require a 50% payment following the first draft of the plan, with the balance due upon final delivery.

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**Other Fees**

Custodians may charge transaction fees on purchases or sales of certain mutual funds and exchange-traded funds. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security. Custodians that hold assets deemed "Alternative Assets" may charge an annual holding fee. Sufficient cash will be kept in these accounts to cover this annual fee.

VFM, in its sole discretion, may waive its minimum fee and/or charge a lesser investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.).

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**Expense Ratios**

Mutual funds generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 0.50 means that the mutual fund company charges 0.5% for their services. These fees are in addition to the fees paid by you to VFM. In the case of assets invested in a Fund for which VFM serves as advisor, VFM receives investment advisory compensation as part of the expense ratio of the fund. Therefore, these assets are not included when calculating fees that are paid directly to VFM by the client.

Performance figures quoted by mutual fund companies in various publications are after their fees have been deducted.

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**Past Due Accounts and Termination of Agreement**

VFM reserves the right to terminate any financial planning engagement where a client has willfully concealed or has refused to provide pertinent information about financial situations when necessary and appropriate, in VFM's judgment, to providing proper financial advice. Any unused portion of fees collected in advance will be refunded within 30 days.

## Performance-Based Fees

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### Sharing of Capital Gains

Fees are not based on a share of the capital gains or capital appreciation of managed securities.

VFM does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

## Types of Clients

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### Description

Veripax generally provides investment advice to individuals, trusts, estates, charitable organizations, corporations or business entities, and church organizations.

Client relationships vary in scope and length of service.

### Account Minimums

The minimum aggregate account size for new accounts is \$250,000 of assets under management.

No action will be taken if an account falls below \$250,000 in value due to adverse investment performance. If client withdrawals cause the account to fall below \$250,000 and the situation is likely to persist, VFM may schedule a meeting to reach a mutual agreement on whether it makes sense to continue the relationship. Clients with assets below the minimum account size may pay a higher percentage rate on their annual fees than the fees paid by clients with greater assets under management.

VFM has the discretion to waive the account minimum. Accounts of less than \$250,000 may be set up when the client and the advisor anticipate the client will add additional funds to the accounts bringing the total to \$250,000 within a reasonable time, or when other wealth management activities justify a retainer-type fee. Other exceptions will apply to employees of VFM and their relatives, or relatives of existing clients.

## Methods of Analysis, Investment Strategies and Risk of Loss

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### Methods of Analysis

Security analysis methods may include charting, fundamental analysis, technical analysis, and cyclical analysis.

The main sources of information include financial newspapers, magazines and websites, research materials prepared by others, corporate rating

services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases.

Other sources of information that VFM may use include Morningstar mutual fund information, Morningstar stock information, and investment data provided by Fidelity WealthCentral®.

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### **Investment Strategies**

The primary investment strategy used on client accounts is strategic asset allocation utilizing multiple asset classes, with an active risk-management strategy utilized for the Equity allocation. In general, a '40-Act Fund is used for the Equity allocation, no-load mutual funds are used for the fixed-income allocation, and various Alternative Assets are used in the form of mutual funds, partnerships or private offerings.

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time. Once objectives and an investment strategy have been agreed to, VFM will execute the strategy on a discretionary basis.

Other strategies may include long-term purchases, short-term purchases, trading, short sales, margin transactions, and option writing (including covered options, uncovered options, or spreading strategies).

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### **Risk of Loss**

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of

return (i.e. interest rate). This primarily relates to fixed income securities.

- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

## **Disciplinary Information**

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### **Legal and Disciplinary**

The firm and its employees have not been involved in legal or disciplinary events related to past or present investment clients.

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

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### **Financial Industry Activities**

VFM is not registered as a securities broker-dealer, or a futures commission merchant, commodity pool operator or commodity trading advisor.

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### **Affiliations**

VFM has no arrangements that are material to its advisory or its clients with a related person who is a broker-dealer, investment company, other investment advisor, financial planning firm, commodity pool operator, commodity trading adviser or futures commission merchant, banking or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant, real estate broker or dealer, or an entity that creates or packages limited partnerships.

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

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## Code of Ethics

The employees of VFM have committed to a Code of Ethics that is available for review by clients and prospective clients upon request. The firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

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## Participation or Interest in Client Transactions

VFM and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades.

# Brokerage Practices

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## Selecting Brokerage Firms

VFM does not have any affiliation with product sales firms. VFM will make specific custodian recommendations based on the convenience of having the majority of accounts at a limited number of custodians. VFM has chosen these custodians based on the proven integrity and financial responsibility of the firm and reasonable commissions and fees. If the client prefers a broker other than those that VFM recommends, it will be considered as part of the Investment Advisory Agreement negotiation.

VFM does not receive fees or commissions from any brokerage or custodian that it recommends.

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## Best Execution

VFM reviews the execution of trades at each custodian each quarter. Trading fees charged by the custodians is also reviewed on a quarterly basis. VFM does not receive any portion of the trading fees.

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## Soft Dollars

VFM receives access to research and a trading platform provided by Fidelity Investments. For consistency in reporting and order aggregation (see below), Fidelity Investments is the preferred custodian for clients. All clients benefit from the research and analysis tools provided by Fidelity.

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## Order Aggregation

When a large buy or sell order covering multiple accounts is placed for an Exchange Traded Fund or stock, the orders are typically aggregated into block trades. This ensures that all clients receive the same execution price. When small orders for single accounts are placed at different times during the day, there is a chance that one client may receive a slightly better or worse execution price than another client. When this occurs, there is no attempt to provide an advantage to one client over another.

## Review of Accounts

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### Periodic Reviews

Account reviews are performed on an annual basis by Jerry Verseput. Account reviews are performed more frequently when market conditions or client needs dictate.

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### Review Triggers

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's own situation.

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### Regular Reports

Investment Advisory Agreement clients receive written quarterly updates from VFM, in addition to monthly statements provided by the custodian.

## Client Referrals and Other Compensation

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### Incoming Referrals

VFM has been fortunate to receive many client referrals over the years. The referrals came from current clients, estate planning attorneys, accountants, friends of employees and other similar sources. The firm does not compensate referring parties for these referrals. At times, VFM may provide a non-cash gift (value <\$50) as an expression of gratitude for a referral.

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### Referrals Out

VFM does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

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### Other Compensation

N/A.

## Custody

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### Account Statements

All assets are held at qualified custodians, which means the custodians provide account statements directly to clients at their address of record at least quarterly.

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### Performance Reports

Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided by VFM.

## Investment Discretion

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### Discretionary Authority for Trading

VFM accepts discretionary authority to manage securities accounts on behalf of clients. VFM has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold.

The client approves the custodian to be used and the commission rates paid to the custodian. VFM does not receive any portion of the transaction fees or commissions paid by the client to the custodian on certain trades.

Discretionary trading authority facilitates placing trades in your accounts on your behalf so that we may promptly implement the investment strategy we agreed to.

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### Limited Power of Attorney

A limited power of attorney is a trading authorization for this purpose. You sign a limited power of attorney so that we may execute the trades that you have approved.

## Voting Client Securities

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### Proxy Votes

The proxy voting guidelines below summarize Veripax Financial Management's positions on various issues of concern to investors, and give a general indication of how portfolio securities held in advisory accounts, such as the Fund, will be voted on proposals dealing with particular issues.

The proxy voting guidelines are just that — guidelines. The guidelines are not exhaustive and do not include all potential voting issues. Because proxy issues and the circumstances of individual companies are so varied, there may be instances when the adviser may not vote in strict adherence to these guidelines. Regardless of these guidelines, the adviser will always attempt to vote consistent with the Fund's investment objectives.

By the following general categories, absent special circumstances, proxies will be voted:

- Governance

**For** proposals calling for a majority of the directors to be independent of management.



**For** proposals seeking to increase the independence of board nominating, audit, and compensation committees.

**In accordance with the recommendation of the company's board of directors** on all shareholder proposals, except it will vote **For** shareholder proposals that are consistent with these proxy voting guidelines.

**For** the election of the company's nominees for director, except it will withhold votes for nominees it considers insufficiently committed or competent.

**Against** proposals to elect directors on a staggered schedule.

- Business Transactions

**On a case-by-case basis** on board-approved proposals to effect acquisitions, mergers, reincorporations, reorganizations, and other transactions.

**Against** proposals to adopt anti-takeover measures.

**On a case-by-case basis** on proposals to amend a company's charter or bylaws.

**Against** authorization to transact other unidentified, substantive business at the meeting.

- Capitalization

**On a case-by-case basis** on board-approved proposals involving changes to a company's capitalization, except it will normally vote:

**For** proposals relating to the authorization of additional common stock.

**For** proposals to effect stock splits.

**For** proposals authorizing share repurchase programs.

- Executive Compensation

**On a case-by-case basis** on board-approved proposals relating to executive compensation.

**For** compensation programs that relate executive compensation to a company's long-term performance.

**For** stock option plans unless they could result in massive dilution or have other provisions clearly not in the interest of existing shareholders.

## Financial Information

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### Financial Condition

VFM does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because VFM does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than \$600 per client, and six months or more in advance.

## Business Continuity Plan

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### General

As a Business Continuity Plan, VFM shares client contact information with Curtis Financial Planning. In the event that VFM is no longer able to carry on business and Jerry Verseput is either deceased or incapacitated, an agreement is in place whereby Curtis Financial Planning will reach out to existing VFM clients to offer financial planning assistance.

## Information Security Program

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### Information Security

VFM maintains an information security program to reduce the risk that your personal and confidential information may be breached.

### Privacy Notice

VFM is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of nonpublic information that we collect from you may include information about your personal finances, information about your health to the extent that it is needed for the financial planning process, information about transactions between you and third parties, and information from consumer reporting agencies, e.g., credit reports. We use this information to help you meet your personal financial goals.

With your permission, we disclose limited information to attorneys, accountants, and mortgage lenders with whom you have established a relationship. You may opt out from our sharing information with these nonaffiliated third parties by notifying us at any time by telephone, mail, fax, email, or in person. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf.

We maintain a secure office to ensure that your information is not placed at unreasonable risk. We employ a firewall barrier and secure data encryption techniques in our computer environment.

We do not provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our Company records and your personal records as permitted by law.

Personally identifiable information about you will be maintained while you are a client, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our privacy policy is expected to change. We are required by law to deliver this *Privacy Notice* to you annually, in writing.

## Brochure Supplement (Part 2B of Form ADV)

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### Education and Business Standards

Jerry Verseput is the only individual authorized to give investment advice to clients. However, in the event that other advisors are brought on staff, general education and business standards include an undergraduate degree, several years of related business experience, and enrollment or completion of education in a financial-related designation program such as MBA, CFP®, CFA, ChFC, AIF, EA or CPA.

### Professional Certifications

Jerry Verseput has earned certifications and credentials that are required to be explained in further detail.

Certified Financial Planner (CFP): Certified Financial Planners are licensed by the CFP Board to use the CFP mark. CFP certification requirements:

- Bachelor's degree from an accredited college or university.
- Completion of the financial planning education requirements set by the CFP Board ([www.cfp.net](http://www.cfp.net)).
- Successful completion of the 10-hour CFP® Certification Exam.
- Three-year qualifying full-time work experience.
- Successfully pass the Candidate Fitness Standards and background check.

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### Jerry Verseput, CERTIFICATIONS

Title: President; Certified Financial Planner™

Year of Birth: 1964

Educational Background:

- CFP Program – College for Financial Planning (2007)
- Series 65 Investment Advisors license (2006)
- MS Engineering – Southern Methodist University (2005)
- BS Electrical Engineering – Cal Poly, Pomona (1987)

Business Experience:

- Mr. Verseput has been the owner and Principal Advisor of Veripax Financial Management, LLC since April, 2006. Prior to founding VFM, Mr. Verseput held various executive and program manager positions at Intel Corporation.

Disciplinary Information: None

Other Business Activities: None

Additional Compensation: None

Arbitration Claims: None

Self-Regulatory Organization or Administrative Proceeding: None

Bankruptcy Petition: None