

## **STRATEGIC FINANCIAL MANAGEMENT, INC.**

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March 1, 2012

This brochure provides information about the qualifications and business practices of Strategic Financial Management, Inc. If you have any questions about the contents of this brochure, please contact us at 541-773-7774. 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 Strategic Financial Management, Inc. is also available on the SEC's website: <http://www.adviserinfo.sec.gov>. Strategic Financial Management, Inc. is a Registered Investment Advisor, which does not imply any specific knowledge or skills.

## **MATERIAL CHANGES**

**Strategic Financial Management, Inc. had no material changes since the last update of this brochure.**

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## ADVISORY BUSINESS

Strategic Financial Management, Inc. “SFMI” founded in 2008, is a Registered Investment Advisor whose principal business is providing investment advisory services for individuals, partnerships, and various other similarly organized entities.

SFMI is owned by Ronald Coby and Dennis Lamson. Ronald Coby and Dennis Lamson have no administrative responsibilities with SFMI and are not involved in the day-to-day activities. Will Reishman and Chad Swanson are Investment Advisor Representatives. Will Reishman is Senior Portfolio and Business Manager. Chad Swanson is Portfolio and Compliance Manager.

SFMI offers discretionary and non-discretionary adviser programs to its clients. Through its internal research, SFMI has constructed three securities portfolios:

- Bull/Bear Allocation Portfolio
- Total Return Portfolio
- Precious Metals and Natural Resources Portfolio

SFMI also provides:

- Managed accounts for clients who prefer to make their own buy and sell decisions utilizing SFMI proprietary research. SFMI will take discretion of a client account and trade it as a stand-alone account outside of the SFMI models.
- In the non-discretionary accounts under management, SFMI may impose restrictions on investing in certain securities or type of securities. Further, clients may impose additional restrictions.

SFMI does not permit clients to place restrictions on the investments in its managed portfolios.

SFMI does not participate in any wrap fee programs at this time.

In addition to the above described services offered by SFMI, it may from time to time offer consulting services to corporations and institutions in regards to the management of assets owned by said entities. These services are provided on, and pursuant to a negotiated fee based upon the time and degree of experience required for the contracted management advice.

As of December 31, 2011, SFMI managed \$38,000,000 on a discretionary basis and \$2,000,000 on a non-discretionary basis.

## FEES AND COMPENSATION

Non-discretionary and discretionary accounts are charged a Management Fee in arrears at the beginning of each fiscal quarter as set forth in the Fee Schedule below:

<b>SFMI MANAGED PORTFOLIOS</b> <b>BULL/BEAR ALLOCATION</b> <b>TOTAL RETURN</b> <b>PRECIOUS METALS AND NATURAL RESOURCES</b>	
AUM	FEE
\$100,000-\$249,999	1.50%
\$250,000-\$499,999	1.40%
\$500,000-\$999,999	1.30%
\$1,000,000-\$2,499,999	1.20%
\$2,500,000-\$4,999,999	1.10%
\$5,000,000+	1.00%

<b>INDIVIDUALLY MANAGED ADVISORY PROGRAM</b>	
AUM	FEE
\$100,000-\$999,999	2.00%
\$1,000,000-\$5,000,000+	1.50%

<b>CLIENT DIRECTED OMNIBUS PLATFORM</b>	
AUM	FEE
\$100,000-\$249,999	1.25%
\$250,000-\$499,999	1.10%
\$500,000-\$999,999	1.00%
\$1,000,000-\$2,499,999	0.85%
\$2,500,000-\$4,999,999	0.75%
\$5,000,000+	0.65%

\*In addition to the fees charged about the client will pay the execution costs of each transaction.

The fees charged are subject to adjustment based upon client contributions or withdrawals from their accounts during any particular fiscal quarter. Said adjustments are made, on a pro rata basis at the beginning of the next fiscal quarter.

Neither SFMI nor its personnel receives any compensation from the purchase or sale of securities for SFMI clients' accounts.

### Other Fees, Costs and Expenses

Clients of SFMI are charged brokerage fees for all securities transactions for clients' accounts. Neither SFMI nor its affiliated personnel receive compensation from brokerage fees charged to clients.

SFMI does not receive any compensation from the sale of any mutual funds to clients.

## **PERFORMANCE BASED FEES**

SFMI may charge performance-based fees to (a) individual clients who are “Qualified clients” as defined under the Investment Advisers Act of 1940; (b) clients who are nonresidents of the United States; (c) qualified purchasers (as defined under section 2(a) (51) (A) of the Investment Company Act of 1940); and (d) knowledgeable employees of the Investment Adviser. At the present time, SFMI does not have any clients that are being charged a performance fee.

In all cases, any performance based fees will be charged in accordance with Rule 205-3 under the Investment Advisers Act of 1940 and will be made clear to the client.

## **TYPES OF CLIENTS**

SFMI accepts individuals, trusts, partnerships, private investment companies and pension plans as clients. The minimum asset value to open an account with SFMI is \$100,000. Households can group smaller accounts together to reach the minimum.

## METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

SFMI utilizes three Investment Strategies for its managed discretionary client accounts:

### 1. SFMI Bull/Bear Allocation Portfolio

The Bull/Bear Portfolio (“B/B”) is a unique portfolio designed to protect investor’s wealth through a balanced allocation in four primary asset classes: equities, commodities and hard assets, long-term bonds and a Treasury-bill/currency component.

However, this is not a long only, passive allocation model. By employing the unique *Grail Trend and Timing Indicator* (“The Grail”), this portfolio follows the major trend for each targeted asset class. SFMI may be either long or short in each asset class, and will hold that position as long as the major trend, Bull or Bear, remains in force. The portfolio will then reverse position, once a change in the major trend has been confirmed.

The base allocation is anticipated to be: 30% Equities; 30% Commodities/Gold; 20% Long-term Bonds; 20% Treasury-bill/Currency. At the discretion of the manager, these percentages may be revised at any time.

For the Equity asset class, SFMI will select among the major market indices (which may include international indexes) that demonstrate the strongest correlation to the direction of the macro-trend identified by The Grail.

For the Hard Asset class, the portfolio will be apportioned between gold Exchange Traded Funds (“ETFs”), individual commodity funds and/or a general commodity index in a ratio representing the greatest potential over the intermediate to longer term time frames.

For the Long-term Bond allocation, SFMI will be either long bonds, employing (for example) the TLT (iShares Barclay 20+ Year Treasury Bond) ETF, or short bonds by using the TBT (Ultra Short 20 + Year Treasury Proshares) ETF or other bond indices that demonstrate the strongest correlation to the direction of the macro-trend identified by The Grail.

For the currency allocation, the Bull/Bear Allocation Portfolio will either have an anchor position in a U.S. Treasury-Bill Money Fund and/or ETF; or, at those times when we identify an intermediate to long-term downward trend in the U.S. dollar, we will have this portion of the portfolio in the Merk Hard Currency Fund, or another vehicle that SFMI judges to be a superior alternative.

**Risk Factors:** Please note that past performance is not necessarily an indication of future performance. All investments are subject to changes in the current market conditions and therefore your investment return and principal value will fluctuate, and there could be a gain or loss when your positions are sold.

SFMI will use its proprietary timing indicators (The Grail) to attempt to be long during bullish periods and short during bearish periods in the chosen sectors in which it trades. There is no guarantee that this timing methodology will be successful.

## 2. SFMI Total Return Portfolio

The SFMI Total Return Portfolio (“TR”) is structured to provide investors with a growing stream of income to the extent compatible with a steady increase in portfolio value.

The core of this portfolio is comprised of individual domestic and international income stocks, and select ETFs whose flow-through yields meet our criteria. In addition, SFMI may add growth-oriented vehicles that track major trends within the overall markets. During equity or bond market bear phases, these may include hedges, as well as positions to manage the impact of the dollar’s declining purchasing power on the portfolio’s income stream.

**Risk Factors:** Please note that past performance is not necessarily an indication of future performance. All investments are subject to changes in the current market conditions and therefore your investment return and principal value will fluctuate, and there could be a gain or loss when your positions are sold.

SFMI will use its proprietary timing indicators (The Grail) to attempt to be long during bullish periods and short during bearish periods in the chosen sectors in which it trades. There is no guarantee that this timing methodology will be successful.

The Total Return Fund utilizes individual dividend-paying stocks in its portfolio, which can be more volatile than ETFs or Mutual Funds. Each of these individual securities could be adversely affected by its own financial characteristics as well as market conditions.

## 3. SFMI Precious Metals and Natural Resources Portfolio

This portfolio is the most aggressive of the SFMI investment models.

The SFMI Precious Metals and Natural Resources (“PMNR”) portfolio seeks to obtain substantial capital gains exclusively in the precious metals, energy and diversified natural resources sectors of the market. The portfolio is built upon a core of undervalued opportunities and those we feel have extraordinary potential for major resource discoveries. Special attention is devoted to opportunities in “junior” companies throughout the mining and conventional, as well as the alternative energy sectors. For stock selection, we rely on a variety of outside research sources combined with our own in-house research specialists in these sectors.

In an effort to maximize portfolio returns, SFMI will actively trade gold, silver, and select natural resource ETFs or Ultra-ETFs (2x1 leverage), as well as inverse ETFs to (at times) hedge the portfolio’s core holdings. We will also make trading calls on large cap equities within these sectors. The PMNR is appropriate for aggressive investors willing to take on high levels of risk in order to obtain high potential rewards. The portfolio is committed to capturing a portion of the substantial potential gains from the secular bull markets currently under way in the gold and natural resources sectors.

**Risk Factors:** Please note that past performance is not necessarily an indication of future performance. Changes in the market can substantially affect the returns in this portfolio. Your investment return and principal value will fluctuate, and there could be a gain or loss when your positions are sold.

SFMI will use its proprietary timing indicators (The Grail) to attempt to be long during bullish periods and hedged or short during bearish periods in the chosen sectors in which it trades. There is no guarantee that this timing methodology will be successful as market conditions may change.

The industry sectors in which PMNR trades can be extremely volatile. The oil & gas and precious metals sectors are cyclical in nature and can be subject to “boom-bust” periods. During a bust period, despite SFMI’s best efforts to hedge against loss, your account may experience a steep decline in value.

### **Individually Managed Accounts Advisory Programs**

After thorough consultation with high-net worth clients, SFMI may agree to customize an account tailored to a client's specific goals, objectives and financial circumstances. SFMI thereafter will exercise full discretion over investment decisions in the portfolio, while maintaining regular contact with the account owner to monitor any changes in the investor's circumstances or investment objectives.

This service may be appropriate if a client has an existing portfolio of long-held securities in which tax-management of the assets makes an immediate conversion into a SFMI managed portfolio ill advised.

### **Non-discretionary Advisory Program**

SFMI will assist those clients who prefer to make their own buy and sell decisions by reviewing all client positions on a monthly basis.

Using a unique timing indicator, The Grail, SFMI will provide months Buy, Sell, and Hold ratings on all securities in client accounts, as well as recommending stop-loss orders to attempt to protect against potential losses of principal. This is a non-discretionary model. In this model, SFMI will act only as an adviser, not as a fiduciary and all decisions are made by the client.

SFMI utilizes margin in many of its client's portfolios. Any clients who open margin accounts will be provided with full margin disclosure documents. Margin clients should be made aware of the following:

- They may lose more funds than are deposited in the margin account;
- The clearing firm can force the sale of securities or other assets in a client's account(s);
- The clearing firm can sell securities or other assets without contacting the client;
- Clients are not entitled to choose which securities or other assets in their account(s) are liquidated or sold to meet a margin call; and
- The clearing firm can increase its "house" maintenance margin requirements at any time and is not required to provide advanced written notice to clients.

Margin accounts involve risk and are not suitable for all clients.

## **DISCIPLINARY INFORMATION**

Neither SFMI nor its supervised personnel have been subjected to any administrative, civil, criminal or self-regulatory discipline matters.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Mr. Coby and Mr. Lamson are the also the owners of Grail Investments, LLC, which is the general partner of The Questus Fund Limited Partnership and The Real Asset Income Fund. This is a private investment company exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 and the safe harbor provisions of Regulation D and Rule 5 506 thereof, as well as exempt from registration as an investment company pursuant to Section 3(c)(1) of the Investment Company Act of 1940.

Mr. Coby and Mr. Lamson also own Questus Analytics, LLC where they publish newsletters to subscribers and the general public concerning market trends and investment recommendations.

## CODE OF ETHICS

SFMI subscribes to a Code of Ethics, which is available to any client upon request. This Code applies to SFMI, the Partnership, the General Partner, and any executive officer or other officer (herein after collectively referred to as “Related Person”) performing a similar function within the aforementioned entities. The code holds each officer and entity responsible for promoting honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, fair disclosure to the SEC or other applicable regulatory agencies and prompt reporting of violations of the Code to appropriate regulatory agencies.

Regarding Conflicts of Interests, the overall principle is that the personal interest of a Related Person should not be placed improperly before the interest of the client. More specifically, each Related Person must not use his or her personal influence or personal relationship improperly to influence investment decisions or financial reporting by the client whereby the Related Person would benefit personally to the detriment of the client; or cause the client to take action, or fail to take action, for the individual personal benefit of the Covered Officer rather than the benefit of the client.

The Investment Adviser may advise clients to purchase securities of the same class and type that it owns in an account that is separate from the clients. However, pursuant to the Code, the Applicant may not knowingly favor its own account over any account for which it acts as General Partner or Investment Adviser. Those transactions are reviewed separately so that the client obtains the best executed price.

SFMI’s Related Persons may invest in the same securities that it recommends to its clients. SFMI will attempt to ensure that clients receive favorable pricing. If securities are being bought for multiple clients and Related Persons, SFMI will trade in bulk and average price the trades so that everyone is treated on an equal basis.

Representatives of the Investment Adviser may advise the client to purchase interests in The Questus Fund or The Real Asset Income Fund, pooled investment vehicles, after determining whether or not a specific client meets the eligibility requirements. Representatives of the Adviser may have a participatory interest in the Partnership.

## BROKERAGE PRACTICES

SFMI directs all securities transactions through Vision Financial Markets (“Vision”). SFMI directs all securities transactions through Vision due to the pricing schedule, the quality and timeliness of the executions and to the services provided to SFMI and its clients.

SFMI receives no soft dollar compensation or benefits from its affiliation with Vision or any other registered broker dealer.

Not all investment advisers, however, require that their clients execute its trades through a specific broker dealer. SFMI does not allow clients to direct the securities transactions to other registered broker dealers for the particular individual clients’ accounts.

## REVIEW OF ACCOUNTS

Due to the nature of SFMI’s various investment strategies used to manage clients’ securities, the individual securities positions in all accounts are reviewed on a daily basis. Clients’ overall account positions are reviewed on a monthly basis.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

SFMI does not receive economic benefit from any non-client for providing investment advice or other advisory services. Further, neither SFMI, nor any affiliated person, directly or indirectly compensates any person who is not supervised by SFMI for client referrals.

## **CUSTODY OF CLIENT FUNDS OR SECURITIES**

SFMI does not maintain custody of any client funds or securities.

## **INVESTMENT DISCRETION**

SFMI's policy regarding discretionary trading authority is discussed in the "Advisory Business" section above.

## **VOTING CLIENT SECURITIES**

SFMI does not accept authority to vote clients securities. Clients will receive their proxies or other solicitation materials directly from their custodian or a transfer agent.

## **FINANCIAL INFORMATION**

SFMI is not required to disclose this information because it does not charge clients an upfront planning fee.