



# LOVETT ADVISORS, LLC

Wealth Management Solutions

**Lovett Financial Advisors, LLC**  
**Part 2A of Form ADV**  
**June 20, 2012**

62 Rockford Road, Suite 200  
Wilmington, Delaware 19806  
Telephone: 302-250-4740  
Web: [www.lovettadvisors.com](http://www.lovettadvisors.com)

This brochure provides information about the qualifications and business practices of Lovett Financial Advisors, LLC. If you have any questions about the contents of this brochure, contact us at 302-250-4740. The information in this brochure has not been approved by the Securities and Exchange Commission ("SEC") or any state securities authority.

Additional information about Lovett Financial Advisors, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

(2) Please Note that while we refer to ourselves as "Registered Investment Advisers", registration does not imply a certain level of skill or training.

**Material Changes:**

This brochure represents a new narrative style required by the Securities and Exchange Commission as mandated by Release No. IA-3060. Material changes since the last revision of Form ADV Part II on March 17, 2011 include; updated discretionary assets under management, address and phone number changes due to an office move (as well as information regarding relationship with the new tenant), information pertaining to new relationships with investment management companies (DT Investment Partners, Seattle Capital Investment Advisors, Eaton Vance Investment Management and Dorsey Wright Investment Managers). Finally, LFA no longer charges an hourly fee pertaining only to financial planning.

## Table of Contents

Advisory Business -----	4
Fees and Compensation -----	5
Performance Based Fees and Side-by-Side Management -----	7
Types of Clients -----	7
Methods of Analysis, Investment Strategies and Risk of Loss ----	7
Disciplinary Information -----	9
Other Financial Industry Activities and Affiliations -----	9
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading -----	10
Brokerage Practices -----	11
Review of Accounts -----	14
Client Referrals and Other Compensation -----	14
Custody -----	15
Investment Discretion -----	16
Voting Client Securities -----	16
Financial Information -----	16

## **ADVISORY BUSINESS**

Lovett Financial Advisors LLC, doing business as Lovett Advisors (hereinafter “LFA”, or the “Advisor”), is a limited liability company formed under the laws of the state of Delaware.

Ms. Kim Lovett is the Managing Member and Chief Compliance Officer for the Advisor. The Advisor has been registered with the Securities and Exchange Commission as a registered investment adviser since 2010. LFA provides investment advisory services and services are provided by an appropriate qualified, licensed and authorized Investment Advisory Representative, Ms. Lovett. On June 20, 2012 LFA managed 438 accounts and discretionary assets under management were \$75,452,152 and total assets under management were \$75,452,152.

### ***Investment Advisory Services***

The following services will be performed for the Client:

- Maintenance of an appropriate Investment Policy Statement for those assets under the limited discretionary authority of LFA.
- Coordination and administration of appropriate accounts and related asset transfers.
- Customized implementation of the Investment Policy, including potential selection of an appropriate Sub-Advisor to fulfill investment mandate.(3) Additionally, LFA will honor requests by Clients to impose restrictions on investing in certain types of securities.
- Active tax and cost efficient investment portfolio management for assets under the discretionary authority of LFA including manager and strategy selection.
- Monitoring and management of investment managers and vehicles selected for implementation.
- As necessary, rebalancing, policy and/or strategy modification and/or manager replacements.
- Quarterly detailed written reviews of the Client’s investment portfolio(s) under management.
- As requested, implementation of cost and tax efficient liquidations for unanticipated cash flow needs.
- As requested, provision of preliminary tax information (e.g. realized and unrealized gains, taxable interest and dividends) for Client’s tax planning.

- Maintain and update as requested, a “Capital Needs Analysis”, an analytical process that evaluates the likelihood of meeting stated goals based on the Client’s assets, liabilities and relevant economic assumptions.

### ***Financial Planning and Financial Consulting***

LFA may provide financial planning/financial consulting services to Clients to assist with long or short-term objectives as defined by the Client. Such services are not ongoing in nature and are generally completed within six months of the date of the engagement. Assistance with development of a comprehensive financial plan may include, but is not limited to, advice on the following issues:

- Cash flow management
- Retirement planning
- Risk Management
- Estate Planning

Further, LFA may provide a review and update of the Client’s existing financial plan.

Consultation or planning services may include any of the following at the specific request of the Client:

- Review of the Client’s overall financial situation and issue of a written report of recommendations.
- Review of estate planning issues.
- Preparation of a written asset allocation report and associated recommendations.
- Preparation of a portfolio analysis report and associated recommendations.
- Client initiated hourly consultation services on a myriad of issues raised by the Client, on an as-needed basis.
- Review of cash flow issues.
- Review of investment risk analysis.
- General tax issues and projections.
- Review of fringe benefit considerations.
- Business related issues to include multi-generational family plan.
- Other miscellaneous services based on unique Client needs.

## **FEES AND COMPENSATION**

### ***Investment Advisory Services***

LFA charges Clients for its services based on assets under management per the standard fee schedule as listed below:

#### Equity and Balanced Accounts

First \$2,000,000	1.25%
Next \$3,000,000	.75%
Next \$5,000,000	.60%
Next \$10,000,000	.30%
\$20,000,000 +	Negotiated

#### Fixed Income Only

First \$2,000,000	.50%
Next \$3,000,000	.35%
Next \$5,000,000	.25%
Next \$10,000,000	.20%
\$20,000,000 +	Negotiated

#### Enhanced Cash Management

First \$2,000,000	.35%
Next \$3,000,000	.25%
Next \$5,000,000	.20%
Next \$10,000,000	.15%
\$20,000,000 +	Negotiated

The fees charged are calculated as described above, and are not charged on the basis of a share of capital gains upon, or capital appreciation of, the funds, or any portion of the funds of an advisory Client.

While it is the general policy of LFA to charge fees to its clients in accordance with the fee schedules listed above, the fees are subject to negotiation and may vary from these schedules to reflect circumstances that may apply to a specific account. For example, fees may differ from those stated herein because of long-standing relationships, anticipated client additions to assets under management, changing market conditions or other reasons. Fees are charged on a pro-rata basis quarterly in advance based on the closing market value of the account on the last day of the calendar quarter.

Prior to engaging LFA to provide investment advisory services, the Client will be required to enter into an Investment Advisory Agreement with LFA setting forth the terms and conditions of the engagement, describing the scope of the services to be provided, and the portion of the fee that is due from the Client prior to LFA commencing services. Fees are paid in advance, however, in the event the Client terminates LFA's services, the unearned balance of LFA's fee, if any, shall be refunded to the Client. Upon Client's written authorization, fees will be automatically deducted from the account. Client will be provided with a quarterly statement reflecting deduction of the advisory fee.

#### ***(4 & 8)Financial Planning Fees***

Financial planning is typically included as part of the investment advisory process. There is no separate charge for financial planning.

#### ***Additional Information Concerning Fees***

Advice offered by Advisor may involve choice by Advisor of one or more Sub-Advisors to manage a portion or all of a Client's investments. In such circumstances, Advisor signs an agreement with the Sub-Advisor to provide such services and the Advisor will pay Sub-Advisor some portion of fee paid by Clients.

Advice offered by Advisor may involve investments in stocks, bonds, Exchange Traded Funds (ETF's,) hedge funds, and mutual funds. Clients are hereby advised that all fees paid to Advisor for investment advisory services are separate and distinct from the fees and expenses charged by ETF's, hedge funds and mutual funds (described in each fund prospectus) to their shareholders. These fees may include, but are not limited to, a management fee, upfront sales charges and other fund expenses. Further, there may be transaction charges involved with purchasing or selling of securities. Client may incur and Advisor does not share in any portion of the additional brokerage fees/transaction charges or custody fees imposed by the custodian holding the Clients' funds or securities. The Client should review all fees charged by mutual funds, Advisor and others to fully understand the total amount of fees to be paid by the Client.

A Client could invest in a mutual fund or ETFs directly without the services of the Advisor. In that case, the Client would not receive the services provided by the Advisor which are designed, among other things, to assist the Client in determining which mutual funds or ETFs are most appropriate to the Client's financial condition, goals and objectives. Accordingly, the Clients should review mutual fund and ETF fees, as well as the fees charged by Advisor, to fully understand the total amount of fees to be paid by the Clients and to thereby evaluate the advisory services that are provided.

(5)A Client may also purchase securities or other investments in a traditional non-discretionary brokerage account. (please see "Brokerage Practices" on page 11 of this brochure).

#### **PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Advisor does not currently charge performance based fees nor does it intend to do so in the immediate future.

#### **TYPES OF CLIENTS**

LFA provides investment advice to individuals, pension and profit sharing plans, trusts, estates or charitable organizations, corporations and other organizations.

LFA generally requires a minimum of \$250,000 in assets under management for managed accounts but this minimum may be waived at the discretion of LFA.

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

LFA recognizes that Clients have different investment objectives and risk tolerances based upon their goals, life style, financial commitments and a myriad of other factors. The Advisor works closely with the Client to develop a Statement of Investment Policy and Objectives that helps define a particular investment strategy. The Advisor may then manage the account directly or may choose a Sub-Advisor that would, in the opinion of the Advisor, be able to execute a strategy consistent with the one defined by the Client. The Advisor's methods of analysis include fundamental analysis and technical analysis of securities and markets. (6) Fundamental analysis examines trends in economic data, interest rates, corporate earnings, corporate balance sheets, and credit agency ratings to determine the probability of future earnings and subsequently the prospects for future stock or Bond appreciation. Technical analysis on the other hand takes into consideration factors such as chart trends, Volatility index, put/call ratios, momentum, volume and more. To over simplify, fundamental analysis looks at the factors that could possibly affect the performance of a company or group of companies and are more long term in nature, while technical analysis considers factors that may be more market driven and more short term in nature. The Advisor reviews financial news, corporate rating services, research materials prepared by others, annual reports, prospectuses and filings with the Securities and Exchange Commission. The Advisor also conducts interviews and due diligence with respect to the investment strategies and capabilities of prospective money managers who may be employed as Sub-Advisors.

To fulfill a particular investment strategy Advisor or Sub-Advisor may elect long term purchases, short term purchases or trading strategies (securities sold within 30 days).

After reviewing a Client's investment objectives and tolerance for risk, Clients execute an Investment Policy Statement that selects one of the following investment strategies:

1. *Ultra Conservative Growth and Income*: Seeks high current income with very modest growth of capital. While income and capital preservation are the primary focus, the portfolio will seek to provide growth of capital (excluding current income) equal to inflation, as measured by the Core Consumer Price Index – "CPI". This portfolio will generally have a high weighting to cash and traditional fixed income and a low weighting to equity related strategies. The Ultra Conservative investment objective is equivalent to an ultra low risk profile.
2. *Conservative Growth and Income*: Seeks high current income with modest growth of capital. While income and capital preservation are the primary focus, the portfolio will seek to provide growth of capital (excluding current income) equal to inflation ("CPI"). This portfolio will generally have a high weighting to cash and



traditional fixed income and a lower weighting to equity related strategies. The Conservative investment objective is equivalent to a low risk profile.

3. *Moderate Growth and Income*: Seeks growth of capital as well as current income. The portfolio will invest across diversified strategies specializing in fixed income, equity, real assets, and private investments with relatively equal weightings between equity and fixed income related strategies. The Moderate investment objective is equivalent to a balanced, medium risk profile.
4. *Aggressive Growth*: Seeks maximum growth of capital. This portfolio will generally utilize a high weighting to equity-related strategies and a low weighting to fixed income related strategies. The Aggressive investment objective is equivalent to a high risk profile.
5. *Fixed Income Only*: Seeks to preserve principal value, maintain adequate liquidity to meet client demands, and maximize total return. This portfolio will generally utilize investment grade cash and fixed income securities such as US Treasuries, agencies, municipal bonds, agency mortgage-backed securities and corporate debt. The Fixed Income Only investment objective is equivalent to a very low risk profile.

There are a number of risks associated with the various strategies offered by the Advisor. Generally, Clients are subject to stock market risk, which is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and falling prices. Such risk may vary based on the percentage of stocks owned in a given investment strategy.

Bonds are subject to interest rate risk, which is the chance that bond prices overall will decline because of rising interest rates. Interest rate risk will vary based on the percentage of bonds owned in a given strategy. In addition, long-term bonds have a higher interest rate risk and are much more sensitive to interest rate changes than are the prices of short-term bonds. In addition, bonds are also subject to credit risk, the chance that a bond issuer will fail to pay interest and principal in a timely manner or, that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline. Finally, some bonds may be subject to call risk. This is the chance that in a declining interest rate environment the issuer of a bond will repay or call securities with higher coupons before their maturity dates.

Investments in specific asset classes entail different investment risks. For example, small cap stocks tend to be more volatile than large or mid-cap stocks. International stocks and emerging markets include risks due to currency fluctuations, foreign taxes, political instability and possibility of illiquid markets. Real estate investing includes risks such as declines in the value of real estate, changing economic conditions, tax laws or property taxes. Investing in Commodities is also highly volatile and subject to changing economic conditions and the vagaries of speculators among other risks. Market Neutral and Long/Short strategies entail potential liquidity risks and frequently higher fees.

Finally, strategic or tactical asset allocations employed by the Advisor or any Sub-Advisor do not assure profit or protect against loss in declining markets. (7) Clients are advised that investing in securities involves risk of loss that they should be prepared to bear.

## **DISCIPLINARY INFORMATION**

LFA or any of its partners, officers or employees have never been involved in any legal or disciplinary action with any federal or state statutory or regulatory agency. Likewise, the firm, its partners, officers or employees have never been subject to disciplinary action by self-regulatory organizations.

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

Ms. Lovett is also currently employed as a registered representative with Comprehensive Asset Management and Servicing, Inc., a FINRA registered broker-dealer located at 2001 Route 46, Suite 506, Parsippany, NJ 07054.

As a licensed insurance agent, Ms. Lovett may recommend to advisory Clients a variety of insurance products, and may offer commissionable (non-variable) insurance products for which she may receive a commission. This may present a conflict of interest but never to the detriment of the client.

LFA currently leases office space from Cover & Rossiter accounting firm. Cover & Rossiter is a professionally registered C Corporation. Lease costs and certain ancillary administrative services are provided to LFA by Cover & Rossiter and are defined in a separate agreement between the two parties.

LFA utilizes DT Investment Partners, LLP as a Sub Advisor for many of its accounts. The fee schedule for investment management is defined by a separate Sub Advisory agreement between the two parties.

LFA utilizes Seattle Capital Investment Advisors, a Securities and Exchange Commission registered, subsidiary of Seafirst Bank and Bank of America as a Sub Advisor for some of its accounts. The fee schedule for investment management is defined by a separate Sub Advisory agreement between the two parties.

LFA utilizes Eaton Vance Investment Management, a Securities and Exchange Commission registered, and investment management firm. The fee schedule for investment management is defined by a separate Sub Advisory agreement between the two parties.

LFA utilizes Dorsey Wright Investment Management, a Securities and Exchange Commission registered, and investment management firm. The fee schedule for investment management is defined by a separate Sub Advisory agreement between the two parties.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Ms. Lovett and LFA employees may buy or sell for themselves securities that they also recommend to Clients. In order to minimize this conflict of interest, LFA and its employees will not receive preferential treatment over any Clients.

### ***Code of Ethics***

LFA has established a Code of Ethics that will apply to all of its employees. An investment advisor is considered a fiduciary and LFA has a fiduciary duty to all of its Clients. As a fiduciary, it is an investment advisor's responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our Clients at all times. This fiduciary duty is considered the core underlying principle for LFA's Code of Ethics which also includes Insider Trading and Personal Securities Transactions Policies and Procedures. LFA requires all of its supervised persons to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. Upon employment or affiliation and at least annually thereafter, all supervised persons will sign an acknowledgement that they have read, understand, and agree to comply with LFA's Code of Ethics. LFA has the responsibility to make sure that the interests of all Clients are placed ahead of LFA's or its supervised persons' own investment interest. Full disclosure of all material facts and potential conflicts of interest will be provided to Clients prior to any services being conducted. LFA and its supervised persons must conduct business in an honest, ethical and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all Clients. This disclosure is provided to give all Clients a summary of LFA's Code of Ethics. However, if a Client or a potential Client wishes to review LFA's Code of Ethics in its entirety, a copy will be provided promptly upon request.

LFA submits an undertaking that prior to introducing Pennsylvania clients to another investment advisor, LFA will be responsible for determining that they are registered with the Commonwealth under Section 301 of the 1972 Securities Act; or if the investment advisor is relying upon exclusion from the definition of investment advisor under section 102(j) of the 1972 Act or relying upon exemption under section 302(d) of the 1972 Act or if the investment advisor is registered under the SEC and whether it is filed a notification with the Commission 303.015(a)

### ***Participation or Interest in Client Transactions***

LFA or its related persons do not buy or sell securities for client accounts in which the Advisor or its related persons have a material financial interest.

### ***Insider Trading***

Advisor also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by Advisor.

### ***Personal Trading***

LFA or individuals associated with the firm may buy or sell for their personal accounts investment products identical to those recommended to clients. It is the expressed policy of LFA that no person employed by the firm may enter an order to purchase or sell any security prior to a transaction being implemented for an advisory account (in accordance with standard “front-running” guidelines), and therefore, preventing such employees from benefiting from transactions placed on behalf of advisory accounts.

LFA and its access persons generally may not purchase and sell securities being considered for, or held by client accounts without pre-clearance of the firm’s Compliance Officer.

## **BROKERAGE PRACTICES**

LFA may have the authority to determine, without obtaining specific Client consent, the appointment of a sub-advisor, the securities to be bought or sold, the broker or dealer to be used, and the commission rates to be paid. It should be noted that LFA does not have custody of Client funds or the authority to remove funds from Client’s accounts except to instruct the custodian to return funds directly to Clients, or to deduct advisory fees from the account on a quarterly basis.<sup>(9)</sup> The client may be required to open a brokerage account: thus agreeing in advance to the broker dealer selected. In the case where the account is being sub-advised the client agrees in advance that the sub-advisor may select the broker-dealer to be used.

Clients wishing to implement Advisor’s advice are free to select any broker they wish, and are so informed. If a Client elects to direct brokerage to a specific broker-dealer, the client may pay a higher commission because the Client cannot take advantage of blocked rates the Advisor may be able to obtain. In addition, the Advisor may not be able to negotiate commissions, obtain volume discounts or best execution. Under those circumstances, there may be a disparity in commission charges between Clients who direct Advisor to use a particular broker-dealer and Clients who give other directions.

Those wishing Advisor to recommend a broker will get a recommendation based on the broker’s costs, skills, reputation, dependability and compatibility with the Client. Clients are advised that they may be able to obtain lower commissions and fees from

other brokers and the value of products, research and services given to Advisor is not a factor in determining the selection of broker/dealers or the reasonableness of their commissions.

Advisor participates in the TD AMERITRADE Institutional program. TD AMERITRADE Institutional is a division of TD AMERITRADE, INC. ("TD AMERITRADE") member FINRA/SIPC/NFA. TD AMERITRADE is an unaffiliated SEC-registered broker-dealer and FINRA member. TD AMERITRADE offers to independent investment Advisors services which include custody of securities, trade execution, clearance and settlement of transactions. Advisor receives some benefits from TD AMERITRADE through its participation in the program. In some cases, securities transactions will be executed through TD AMERITRADE Institutional, a Division of TD AMERITRADE, Inc., member FINRA/SIPC/NFA ("TD AMERITRADE"), or any other designated broker-dealer are exclusive of and in addition to the Advisor's fee. TD AMERITRADE may be paid certain advisory fees, product management fees (on annuities and securities such as mutual funds), administrative fees and/or transaction charges for its role with respect to Advisor's accounts. It is important to note that TD AMERITRADE, Member FINRA/SIPC/NFA does not maintain a supervisory relationship with respect to Advisor or its representatives. TD AMERITRADE, Member FINRA/SIPC/NFA and Advisor are separately registered and independently controlled entities.

Advisor reasonably believes that in the case of managed accounts, TD AMERITRADE's blend of execution services, commission and transaction costs as well as professionalism allows Advisor to seek best execution and competitive prices. Additionally, Advisor believes that in case of financial plan recommendations being executed, that TD AMERITRADE's blend of execution services, commission and transaction costs as well as professionalism allows TD AMERITRADE to seek best execution and competitive prices. At all times, financial planning Clients are free to execute their plan recommendations through another broker-dealer without the assistance of TD AMERITRADE or its investment advisory representatives.

Generally, in addition to a broker's ability to provide "best execution", we may also consider the value of "research" or additional brokerage products and services a broker-dealer has provided or may be willing to provide. This is known as paying for those services with "soft dollars". (10) In this case LFA receives a benefit because LFA does not have to produce or pay for the research, products or services. Since many of the services or products could be considered to provide a benefit to the firm, and because the "soft dollars" used to acquire them are Client assets, the firm could be considered to have a conflict of interest in allocating Client brokerage business: it could receive valuable benefits by selecting a particular broker or dealer to execute Client transactions and the transaction compensation charged by that broker or dealer might not be the lowest compensation the firm might otherwise be able to negotiate. In addition, the firm could have an incentive to cause Clients to engage in more securities transactions than would otherwise be optimal in order to generate brokerage compensation with which to acquire

products and services. (11 & 12)LFA may also have an incentive to select or recommend a broker-dealer based on LFA's interest in receiving the research or other products or services, rather than on LFA's clients' interest in receiving most favorable execution.

The firm's use of soft dollars is intended to comply with the requirements of Section 28(e) of the Securities Exchange Act of 1934. Section 28(e) provides a "safe harbor" for investment managers who use commissions or transaction fees paid by their advised accounts to obtain investment research services that provide a lawful and appropriate assistance to the manager in performing investment decision-making responsibilities. As required by Section 28(e), the firm will make a good faith determination that the amount of commission or other fees paid is reasonable in relation to the value of the brokerage and research services provided. That is, before placing orders with a particular broker, we generally determine, considering all the factors described below, that the compensation to be paid to TD AMERITRADE is reasonable in relation to the value of all the brokerage and research products and services provided by TD AMERITRADE. In making this determination, we typically consider not only the particular transaction or transactions, and not only the value of brokerage and research services and products to a particular Client, but also the value of those services and products in our performance of our overall responsibilities to all of our Clients. In some cases, the commissions or other transaction fees charged by a particular broker-dealer for a particular transaction or set of transactions may be greater than the amounts another broker-dealer who did not provide research services or products might charge.

Research and Brokerage Products and Services. "Research" products and services we may receive from broker-dealers may include economic surveys, data, and analyses; financial publications; recommendations or other information about particular companies and industries (through research reports and otherwise); and other products or services (e.g., computer services and equipment, including hardware, software, and data bases) that provide lawful and appropriate assistance to the firm in the performance of its investment decision-making responsibilities. Consistent with Section 28(e), brokerage products and services (beyond traditional execution services) consist primarily of computer services and software that permit us to effect securities transactions and perform functions incidental to transaction execution. We generally use such products and services in the conduct of our investment decision-making generally, not just for those accounts whose commissions may be considered to have been used to pay for the products or services.

Other Uses and Products. The firm may use some products or services not only as "research" and as brokerage (i.e., to assist in making investment decisions for Clients or to perform functions incidental to transaction execution) but for our administrative and other purposes as well. In these instances, we make a reasonable allocation of the cost of the products and services so that only the portion of the cost that is attributable to making investment decisions and executing transactions is paid with commission dollars and we bear the cost of the balance. Our interest in making such an allocation differs

from Clients' interest, in that we have an incentive to designate as much as possible of the cost as research and brokerage in order to minimize the portion that the firm must pay directly.

**Mutual Fund Transactions.** Although shares of no-load mutual funds can be purchased and redeemed without payment of transactions fees, we may, consistent with our duty of best execution, determine to cause Client accounts to pay transaction fees that may be higher than those obtainable from other broker-dealers when purchasing shares of certain no-load mutual funds through TD Ameritrade in order to obtain "research". This research may not be used for the exclusive benefit of the Clients who pay transaction fees in purchasing mutual fund shares.

**Amount and Manner of Payment.** A broker-dealer through which the firm wishes to use soft dollars may establish "credits" arising out of brokerage business done in the past, which may be used to pay, or reimburse the firm for, specified expenses. In other cases, a broker-dealer may provide or pay for the service or product and suggest a level of future business that would fully compensate it. The actual level of transactional business the firm does with a particular broker-dealer during any period may be less than such a suggested level, but may exceed that level and may generate unused soft dollar "credits." We do not exclude a broker-dealer from receiving business simply because the broker-dealer has not been identified as providing soft dollar research products and services, although we may not be willing to pay the same commission to such broker-dealer as we would have paid had the broker-dealer provided such products and services.

**Aggregate Order Policy.** Lovett Advisors utilizes an aggregate order policy for client accounts (portfolios) whenever possible. This insures a uniform pricing policy for all clients and is cost effective. Clients utilizing investment managers through a sub advisory agreement within Lovett Advisors also obtain aggregate order pricing through the investment manager (s)

In fiscal year 2011, Lovett Advisors utilized soft dollars to purchase Cheshire software, financial industry software that provides portfolio analytics, planning tools and other support for advisors. Advisor believes that resources provided by Cheshire likely benefit all client accounts and not merely those that provided the soft dollar credits utilized for purchase.

## **REVIEW OF ACCOUNTS**

Kim Lovett, Managing Member and Chief Compliance Officer, reviews all accounts on at least a quarterly basis. More frequent reviews may be necessary due to the Client's individual circumstances, economic conditions, returns from various asset classes or general factors regarding the prospects for the financial markets. In addition to internal

reviews, Ms. Lovett endeavors to meet with Clients no less than annually to review their investment objectives.

LFA also provides to each client a quarterly report, in addition to reports received from the custodian, showing among other things, securities held, transactions in the account in the past quarter, security cost, security market value and performance returns as well as advisory fees paid to LFA. Such reports are generally accompanied by a performance analysis and quarterly client letter/commentary. Clients are also encouraged to compare reports and values received from the Advisor with those of the custodian and to promptly report any discrepancies.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

As disclosed in “Brokerage Practices”, Advisor participates in TD AMERITRADE'S institutional customer program and Advisor may recommend TD AMERITRADE to Clients for custody and brokerage services. There is no direct link between Advisor's participation in the program and the investment advice it gives to its Clients, although Advisor receives economic benefits through its participation in the program that are not typically available to TD AMERITRADE retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to Advisor by third party vendors. TD AMERITRADE may also have paid for business consulting and professional services received by Advisor's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit Advisor but may not benefit its Client accounts. These products and services may assist Advisor in managing and administering Client accounts, including accounts not maintained at TD AMERITRADE. Other services made available by TD AMERITRADE are intended to help Advisor manage and further develop its business enterprise. The benefits received by Advisor or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD AMERITRADE. As part of its fiduciary duties to Clients, the firm endeavors at all times to put the interests of its Clients first. Clients should be aware, however, that the receipt of economic benefits by Advisor or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the Advisor's choice of TD AMERITRADE for custody and brokerage services.



The commissions and fees charged by TD AMERITRADE, however, may be higher than those charged by broker-dealers who do not provide the aforementioned services to investment Advisors.

## **CUSTODY**

Rule 206 (4) – 2 of the Investment Advisors Act of 1940 addresses custody of funds or securities of Clients by investment Advisors. Consistent with the rule, LFA requires that Clients' funds or securities must be retained with a "qualified custodian" who provides at least quarterly statements, either printed or electronically, to Clients. In addition, LFA assumes responsibility for ensuring that it has a reasonable belief those statements have been delivered.

In addition to statements provided by the custodian, LFA provides quarterly statements and commentary to Clients. Clients also receive a legend on their statements from LFA that encourage them to (13)Carefully review and compare the information provided with the information provided in statements received from the qualified custodian. In the event of discrepancies or questions, the Client is urged to contact the Advisor.

LFA directly debits client accounts to collect fees. While this constitutes "custody" as defined in the Investment Advisors Act, Advisors like LFA who have custody for this reason only are exempt from some additional requirements imposed on Advisors who take physical custody of cash or securities from clients. Accordingly, LFA exercises care and has enacted policies to avoid taking receipt inadvertently of client funds or securities. Generally, LFA will return cash or securities to Client within three business days with instructions for the Client to remit to the qualified custodian.

## **INVESTMENT DISCRETION**

LFA manages accounts primarily on a discretionary basis with full authority to make purchase and sale decision for client accounts, as well as the ability to appoint sub-Advisors to manage a part or all of a client's assets. At a Client's request, DT Investment Partners, SeaCap, Eaton Vance and Dorsey Wright may also enter into non-discretionary agreements that require Client consultation/approval prior to enacting purchase or sale of securities for the account. LFA's Investment Policy Statements also allow the Clients to enumerate any specific exclusions, restrictions or special considerations in managing either discretionary or non-discretionary accounts.

(14)Prior to assuming discretionary authority over a clients account, LFA thoroughly evaluates the client's financial position, goals and objectives, and risk tolerance. In most cases this process involves a comprehensive financial plan. The client also signs a limited power of attorney allowing discretion as part of the custodian's required paperwork along with a LFA Discretionary Agreement.

## **VOTING CLIENT SECURITIES**

LFA does not vote proxies. Clients receive proxies and other solicitations directly from their qualified custodian. (15) Clients may contact LFA with questions about a particular solicitation; however the final voting power resides with the client.

## **FINANCIAL INFORMATION**

LFA does not require or solicit prepayment of client fees six months or more in advance. LFA believes that its financial condition is sound and not likely to impair the Advisor's ability to meet contractual commitments to clients.

### **(16) Requirements for State-Registered Advisers**

#### **Kim W. Lovett**

Principal, Chief Compliance Officer

Year of Birth: 1963

#### ***Education:***

York College, Bachelor of Arts – 1984

CFP Designation - 2002

#### ***Business Background:***

Lovett Financial Advisors, LLC, Wilmington, DE

Principal – 09/09 to present

Comprehensive Asset Management and Servicing, Inc., Parsippany, NJ

Registered representative, 06/10 to present

UBS Financial Services, Wilmington, DE

Registered representative, 11/08 – 08/09

Wachovia Securities, LLC, West Chester, PA

Registered representative, 05/05 – 11/08

Merrill Lynch, Pierce, Fenner & Smith, Inc., Wilmington, DE

Registered representative, 04/97 – 05/05

#### ***Professional Designations/Licenses:***

Certified Financial Planner (CFP) – 09/02 – Educational Requirements: Course work/Examination

**EDUCATION:** Complete the Curriculum at *College for Financial Planning, Denver, Colorado* to master over 100 topics in the following general areas of study:

Process of Financial Planning

Insurance Planning

Investment Planning  
Income Tax Planning  
Retirement Planning  
Employee Benefits  
Estate Planning

**EXAMINATIONS:**

Each candidate for the CFP® credential takes a 3-hour examination on each major curriculum area to show successful mastering of the material.

Once the education requirements have been met, the CFP® candidate must successfully pass a 10-hour comprehensive examination administered over two days. Purpose of the exam is to demonstrate the ability to apply the financial planning education to case situations in order to protect the public by assuring that the CFP® candidate can practice at the required level of competency.

FINRA Series 6 – Investment Company Products/Variable Contracts, 02/91  
FINRA Series 63 – Uniform Securities Agent State Law, 10/91  
FINRA Series 7 – General Securities, 11/92  
FINRA Series 65 – Uniform Combined State Law Examination, 09/97  
FINRA Series 9 – General Securities Sales Supervisor, 10/06  
FINRA Series 10 – General Securities Sales Supervisor, 06/07

**Heinrich K. Brandt**

Independent Contractor  
Year of Birth: 1952

***Education:***

University of Maryland, BS in Animal Science -- 1976

***Business Background:***

Lovett Financial Advisors, LLC, Wilmington, DE  
Individual Contactor – 07/11 to present  
Hollingsworth-Riddleberger Nationwide Insurance Agency, Nationwide Securities LLC  
7/08 – 6/11  
Wye Trust, Division of Centreville National Bank of Maryland  
2/02 – 6/08  
Merrill Lynch, Pierce, Fenner & Smith, Inc., Annapolis/ Baltimore, MD  
Financial Consultant—9/09 – 2/02

***Professional Designations/Licenses:***

FINRA Series 63 – Uniform Securities Agent State Law, 12/99

FINRA Series 7 – General Securities, 12/99

FINRA Series 65 – Uniform Combined State Law Examination, 1/00

CFTA – Certified Trust and Financial Advisor, 7/06 – Educational Requirements: Examination  
Property and Casualty License – 08/08