

# Fortiphi Financial, LLC

## Form ADV Part 2A Brochure

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Fortiphi Financial, LLC  
425 Pontius, Suite 200  
Seattle, WA 98109  
Telephone: 206-588-7500  
E-mail: [service@fortiphi.com](mailto:service@fortiphi.com)  
Websites: [www.fortiphi.com](http://www.fortiphi.com),  
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This Form ADV Part 2A brochure provides information about the qualifications and business practices of Fortiphi Financial, LLC. If you have any questions about the contents of this brochure, please contact us at 206-588-7500 or [service@fortiphi.com](mailto:service@fortiphi.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about **Fortiphi Financial, LLC** is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for Fortiphi Financial, LLC is 150055. **Fortiphi Financial, LLC** is a registered investment advisor. Registration as an investment advisor does not imply any certain level of skill or training.

### Material Changes (Item 2)

*This section of the brochure helps you quickly identify material changes from the last annual update.*

The SEC adopted new rules and rule amendments under the Investment Advisers Act of 1940 to implement provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. As a result, **Fortiphi Financial, LLC** is no longer eligible for SEC registration. We are in the process of switching from federal to state oversight, and the transition must be complete by June 28, 2012. Once the transition is complete, **Fortiphi Financial, LLC's** investment advisory business will be regulated by the State of Washington Securities Division.

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## **Advisory Business (Item 4)**

*This section of the brochure tells you about our business, including ownership, and a description of the services we offer.*

Fortiphi Financial, LLC is referred to in this document as “Fortiphi Financial, LLC”, “the Company”, “us”, “we”, or “our”. In this document we refer to current and prospective clients of Fortiphi Financial, LLC as “you”, “client”, or “your”. Fortiphi Financial, LLC was created in 2009.

### **Types of Advisory Services**

#### Investment Supervisory Services

Some clients enter into a written Investment Advisory Agreement, where Fortiphi Financial, LLC and our investment adviser representatives provide asset management services on a continuous and ongoing basis guided by the individual needs of the client. Using the information provided by you, the investment advice provided to you is tailored to your individual situation. We regularly inquire about, and you are responsible for providing, information about your investment goals, time horizon, and risk tolerance. These investment supervisory services are generally not provided to all your holdings or net worth but rather only to assets specifically designated by you and agreed to by us as managed assets.

#### Advice on Matters Not Involving Securities

**Fortiphi Financial, LLC** may from time-to-time provide advice on topics not involving securities. This advice may relate to insurance or real estate. The fees for this advice are separate from the fee from Investment Supervisory Services and are billed separately as a fixed fee agreement described in the written agreement between us. Non-securities related advice is only provided to you upon specific written request and agreement between us. Not all clients receive this type of advice.

### **Types of Investments Used**

We consider many different types of securities when formulating the investment advice we give to you. If you come to us with existing investments, we evaluate them with respect to your financial goals, risk tolerance, and investment time horizon. Depending upon your situation, your account(s) managed by us may contain individual stocks, corporate and/or government bonds, mutual funds, options, or exchange traded funds (“ETFs”). In some situations we may recommend that real estate be part of your investment portfolio. Real estate investment assets are not included in your assets under management fee.

### **Tailored Services and Investment Restrictions**

We attempt to tailor your investment portfolio to your situation as you have described it to us. This is why it is so important that you let us know about changes to your financial

situation, goals, or investment time horizon. You may impose restrictions on investing in certain securities or types of securities. You must clearly identify these restrictions in writing to us and agree to notify us promptly, in writing, of any changes to your investment objectives, risk tolerance, investment time horizon, and any investment policies, guidelines or reasonable restrictions. We will document your restrictions in our electronic and hard-copy records for your account.

## **Assets Under Management**

As of June 28, 2012, **Fortiphi Financial, LLC** manages \$19,581,555 of client assets on a discretionary basis and \$38,217,654 on a non-discretionary basis.

## **Fees and Compensation (Item 5)**

*This section of the brochure describes how we are compensated for the services we offer.*

### **Compensation Methodology and Rates**

#### Assets Under Management

Clients are charged for our asset management services based on a percentage of the assets being managed. These fees range between .50% and 2%.

The following fee schedule is for investment supervisory services. Your specific annual fee arrangement will be described in the written Investment Advisory Agreement entered into between **Fortiphi Financial, LLC** and you. .

<b>Assets Under Management</b>	<b>Minimum Annual Fee</b>
\$2.5 million and below	\$15,000
\$2.5 million to \$5 million	\$25,000 to \$35,000
\$5 million to \$10 million	\$35,000 to \$75,000

The annual fee for our services is billed quarterly, in advance, based on the value of the account at the end of the quarter. If the management agreement does not span the entire quarterly billing period, the fee will be pro-rated based on the number of days the account is open during the billing period. The invoice will show the formula used to calculate your fee, that amount of assets under management the fee is determined and the time period covered by the fee. Your account custodian will send client statements, at least quarterly, showing all disbursements for the account including the amount of the advisory fee, if deducted directly from the account. It is the responsibility of Fortiphi Financial, LLC to verify the accuracy of the fee calculation as the account custodian will not determine whether the fee has been properly calculated. You are encouraged to review the amount. See Brokerage Practices (Item 12) and Custody (Item 15) in this brochure for more information about your account custodian(s).

You may terminate the Investment Advisory Agreement without fee or penalty by providing written notice to **Fortiphi Financial, LLC** within five (5) business days from the execution of the agreement. Thereafter, either party may terminate the Investment Advisory Agreement by providing written notice. Any unearned fees collected in advance of services being performed will be returned to you on a *pro rata* basis.

#### Valuation of Publicly Traded Securities

Publicly traded securities in your account(s) managed by us are held at the custodian that we recommend but is ultimately chosen by you. We use the securities valuation provided by the independent qualified custodian for reporting and billing purposes. Publicly traded securities are usually valued as of the end of business on the last trading day of the calendar quarter.

#### Valuation of Private Equities

Some of our clients hold privately issued securities in their managed account portfolios. Your independent qualified custodian may hold the privately issued securities, you may hold the physical certificates, or you may have ownership that is only reflected on the books of the issuer. These privately issued securities are not publicly traded and therefore do not have a daily indication of their fair market value. It is our policy to use the last known transaction price to value these non-publicly traded securities for reporting and billing purposes. Because the last known transaction price for these securities may be from a date far in the past, it may be higher or lower than the actual fair value of the securities at the portfolio valuation date. If the valuation cannot be determined, the asset would be removed from the billings on assets under management.

#### Valuation of Real Estate and Lending Investments

Some of our clients hold ownership interests in limited liability companies ("LLC Interests") as investments in their managed account portfolios. The LLC Interests are investment vehicles designed to allow clients access to real estate and securitized lending. These LLC Interests are privately issued securities and not publicly traded. As the LLC Interests are not publicly traded, they are illiquid and not valued by the issuer or the client's independent qualified custodian. It is our policy to use the client's initial investment as the value for reporting and billing. If the valuation cannot be determined, the asset would be removed from the billings on assets under management.

In situations where, in Fortiphi Financial, LLC's opinion, the original investment value is materially greater than the current fair value of a security, Fortiphi Financial, LLC will reduce the value of the investment "fair value" on its books for reporting and billing purposes. Fortiphi Financial, LLC's "fair value" is only an estimate based upon variables including the investment's sector within the economy, current and estimated economic conditions, income, and occupancy levels, among other factors. Our estimate is not a guarantee of value or offer to purchase a security. In situations where we "fair value" a security for billing purposes, our compensation is determined in part by that valuation. We then have a financial incentive to value a security at a higher value. This financial incentive creates a potential conflict of interest between you and us wherein your interests might not

be aligned with ours. **Fortiphi Financial, LLC will always act consistent with its fiduciary duty.**

### **How Clients Pay Advisory Fees**

Fees are generally deducted directly from your account. You must provide your qualified account custodian with written authorization to have fees deducted from the account and paid to Fortiphi Financial, LLC.

If agreed upon by both client and Fortiphi Financial, LLC, program fees can be billed directly to the client instead of being deducted from account balances.

### **Other Types of Fees and Expenses**

In addition to the investment advisory fees you pay to us, you will pay transaction fees (commissions) to your custodian or broker-dealer for executing securities transactions and charges for special services elected by you or Fortiphi Financial, LLC. These fees may include:

- periodic distribution fees
- electronic fund and wire transfer fees
- certificate delivery fees
- reorganization fees
- account transfer fees (outbound)
- returned check fees
- international security transfer fees
- overnight mail and check fees
- Rule 144 transfer fees
- transfer agent fees

This list is not meant to be all inclusive. Any fee on a special service incurred by the client will be fully disclosed. Please refer to Item 12 of this document for an explanation of our brokerage practices.

### **Investment Company Fees**

Investment company funds (e.g., mutual funds or ETFs) that are held by you will bear their own internal transaction and execution costs, as well as directly compensate their investment managers along with internal administrative services. Some funds pay 12b-1 fees, distribution fees, and/or shareholder service fees to broker-dealers that offer investment company funds to their clients. These fees affect the net asset value of the fund shares and are indirectly borne by fund shareholders such as you.

Some fund companies have imposed a redemption fee. A redemption fee is another type of fee that some funds charge their shareholders when shares are sold or redeemed within a short period of time from the purchase of the fund shares. Although a redemption fee is deducted from redemption proceeds just like a deferred sales load, it is not considered to be a sales load. Unlike a sales load, which is generally used to compensate brokers, a

redemption fee is typically used to defray fund costs associated with a shareholder's redemption and is paid directly to the fund, not to a broker. The SEC generally limits redemption fees to 2%. In most cases, the funds will use the "first-in, first-out" (FIFO) method to determine the holding period. Under this method, the date of the redemption will be compared with the earliest purchase date of shares held in the account. While it is not the general practice of Fortiphi Financial, LLC to sell client's securities in a period that would generate a redemption fee we might do so if we believe the sale is in your best interest.

A complete explanation of these charges is contained in the Prospectus and Statement of Additional Information for each investment company fund. You can get a prospectus through the investment company website, by telephone, or by mail.

### **Commission Based Compensation**

Our investment advisor representatives do not receive any commission based compensation from the sale of securities while providing investment advisory services to you.

### **Additional Compensation**

The owners of Fortiphi Financial, LLC and its Investment Advisor Representatives ("Representatives") are also licensed as insurance agents. During the course of providing services to a client, they may recommend that you purchase, sell or hold an insurance product. Our Representatives, when acting as insurance agents, will receive compensation usually based upon the size (premium amount) and/or type of insurance product. The receipt of the fees and commissions creates a financial incentive for the Representatives to recommend one investment choice or insurance product over another. This incentive creates a potential conflict of interest between you and Fortiphi Financial, LLC where the Representatives have an incentive to recommend investment products based on the compensation received, rather than on your needs. You acknowledge that the Representatives and Fortiphi Financial, LLC will receive payment in addition to any investment advisory or financial planning fee(s) paid by you. To address these potential conflicts, we review the costs and expenses associated with investments selected for, or recommended to, you to assure that the costs incurred are reasonable with respect to the services provided. You have the option to purchase investment products that Fortiphi Financial, LLC may recommend through other brokers or agents not affiliated with us. In situations where the Representative will earn commissions on investments recommended in addition to investment advisory fees charged by Fortiphi Financial, LLC, the advisory fee is/is not reduced to offset the securities sales commission or markup.

### **Performance-Based Fees and Side-By-Side Management (Item 6)**

*This section of the brochure explains any performance-based fees we may charge you for and how they may be different from other clients' charges.*



## **Performance-Based Fees**

We do not charge fees that are based upon a share of capital gains or capital appreciation of client assets.

## **Side-By-Side Management**

We provide investment advisory services to other clients in addition to you. Not all clients receive the same investment advice, nor do they pay the same fee. We strive to act in the best interests of each of our clients at all times.

## **Types of Clients (Item 7)**

*This section of the brochure describes who we generally provide our services to.*

### **Individuals**

**Fortiphi Financial, LLC** provides advisory services to a variety of types of clients including individuals and trusts.

## **Methods of Analysis, Investment Strategies, and Risk of Loss (Item 8)**

*This section of the brochure explains how we formulate our investment advice and manage client assets.*

### **Methods of Analysis**

#### **Fortiphi Financial, LLC Model Portfolios**

After filling out a risk tolerance questionnaire, each client's investment needs and goals are assessed, and each client is placed into one of three categories: "Conservative", "Moderate" or "Aggressive". Each of these three categories forms the basis for one of our three model portfolios. Each of the three portfolios is designed to suit one of the three corresponding risk tolerance categories, and is often additionally tailored to suit client-specific needs and investment goals. The model portfolios are, to a large extent, managed and maintained by predetermined parameters. The aforementioned parameters are designed and periodically updated and altered in order to reflect changes in our investment outlook and as well as changes in our perceptions of specific securities' suitability with regards to differing degrees of risk tolerance. Conservative  
Our Conservative model portfolio is designed to suit investors whose primary objectives are wealth preservation and minimum exposure to risk and market volatility. Significant cash reserves protect against capital loss, while investments in stable fixed-income securities provide some c

ash flow. A portion of the portfolio is dedicated to ETFs (exchange-traded funds) and securities designed to perform similar to equity indices that seek to achieve growth and capital accumulation as the primary objective. Forgoing the pursuit of high returns for the sake of prudence and minimal risk, our Conservative model is designed for wealth preservation during even the most recessionary and volatile markets.

### Moderate

Our Moderate model portfolio seeks to balance between our Conservative wealth preservation strategy and our Aggressive growth strategy. Cash and stable fixed-income securities can represent a good portion of the portfolio, providing a buffer against recession and limiting exposure to volatile equity markets. Simultaneously, our investments in the domestic and international equity markets, and other fixed-income securities, offer exposure to private-sector domestic growth, and exposure to rapidly growing emerging economies.

Aggressive Our Aggressive model portfolio is designed to achieve maximum returns through significant exposure to domestic equity, international equity, currency, commodity, and bond markets. While cash and cash-equivalents will comprise a portion of the portfolio for the sake of liquidity and risk management, the majority of the Aggressive portfolio is invested in domestic and international equity markets using ETFs that seek growth and capital accumulation. Depending upon our economic outlook, our Aggressive portfolio may also invest in sector-based, commodity-based, country-based, and currency-based ETFs in order to capitalize upon (and also hedge against) global macroeconomic trends. Our Aggressive portfolio is designed for our investors willing to take on sufficient market risk to achieve above-market returns.

## **Investment Strategies**

### Model Portfolios

Our model portfolios are designed to achieve superior long-term returns while controlling for risk and market volatility. Our investment strategy is based upon extensive research of qualitative and quantitative factors, including technical analysis, fundamental analysis, and behavioral analysis. The aim of our models is to grow and protect investors' wealth through income, capital appreciation, and exposure to both domestic and international markets. Utilizing a dynamic asset allocation strategy, our diversified portfolios are adjusted and rebalanced throughout the year in order to control for risk and reflect changes in our market outlook. Our models are built using exchange-traded funds (ETFs) designed to follow major market indices and in order to minimize costs, maximize liquidity, and gain broad exposure to specific global markets and industries.

### Accredited Investors

### **Fortiphi Financial,**

**LLC** offers an array of unique alternative investment opportunities to sophisticated clients that meet the criteria of "accredited investors." Our extensive network and experience within the realm of real estate and development, as well as our access to private placements and limited partnerships, provides our accredited investors the opportunity to participate in investments and direct participation programs that are typically only offered by hedge funds and private equity firms, and only available to high net worth individuals. Such investments have longer time horizons, are less liquid than traditional investments, and often carry significant risk.

An accredited investor is defined by the SEC as: “a person who has individual net worth, or joint net worth with the person’s spouse, that exceeds \$1 million (exclusive of the residence) at the time of purchase”; or, “a person with income exceeding \$200,000 or joint income with a spouse exceeding \$300,000.”

### Non-Accredited Investors

#### **Fortiphi Financial,**

LLC’s investment solutions for our “non-accredited” investor clients are custom-tailored to suit each individual’s risk tolerance and investment objectives. Our three model portfolios are designed to match a specific risk profile and investment strategy (for example, personal accounts, retirement accounts (such as IRAs), and education plans). Our models are managed using a dynamic asset allocation strategy involving rebalancing and constant evaluation and analysis, and aim to provide growth and wealth preservation.

#### **Envestnet Opportunities**

Because of our belief in the importance of diversification among asset managers, Fortiphi Financial, LLC offers clients access to the investment management services of Envestnet Management, Inc. (“Envestnet”) through Envestnet’s Managed Account Solutions Program (the “Program”), a wrap fee program. Envestnet is the sponsor of the wrap fee program and will provide clients with a Wrap Fee Program Brochure (Form ADV Part 2A Appendix 1) as required. Envestnet is an investment adviser registered with the SEC that is independent of Fortiphi Financial, LLC. Through the Program, Fortiphi Financial, LLC offers clients —both accredited and non-accredited—

access to well-known and exclusive professional asset managers, hedge funds and investment funds (through vehicles such as separately managed accounts, or SMAs), and often allows our clients to bypass certain high minimum-investment requirements that prevent ordinary investors from accessing such investment solutions. Our partnership with Envestnet also offers our clients access to the rapidly-growing and technology-enabled accounts known as unified managed accounts (UMAs), as well as access to portfolios designed by hedge fund managers that are comprised of ETFs in order to bypass the “accredited investor” requirements that prevent most ordinary investors from accessing such vehicles and investment solutions.

Fortiphi Financial, LLC and the client will compile pertinent financial and demographic information to develop a personal investment policy that will meet the client’s goals and objectives. The client’s information is then forwarded to Envestnet for review. Envestnet will analyze the information and recommend an appropriate investment strategy based on the client’s needs and objectives, time horizon, risk tolerance and any other pertinent factors. Among the factors considered in designing these strategies are historical rates of risk and return for various asset classes, correlation across asset classes and risk premiums. Envestnet will then propose an overall strategy that includes asset allocation and investment portfolio recommendations for the asset classes. Fortiphi Financial, LLC will then assist the client with selecting the appropriate service based on the individual needs of the client and Envestnet’s analysis and recommendations.

On an ongoing basis, we will monitor the performance of Envestnet and the asset managers, as applicable. If we determine that a particular service or asset manager is not providing sufficient services to the client, or is not managing the client's portfolio in a manner consistent with that client's personal investment policy, then we will suggest that the client move their account to a different service and/or asset manager. Under this scenario, our firm assists the client in selecting a new service or asset manager. However, any such move is solely at the discretion of the client.

At least annually, we meet with the client to review and update, as necessary, the client's personal investment policy. However, should there be any material change in the client's personal and/or financial situation, we should be notified immediately to determine whether any review and/or revision of the client's personal investment policy is warranted.

Clients will receive a separate disclosure document (Form ADV Part 2) prepared by Envestnet describing in detail the services offered within the Program. Clients are encouraged to review the disclosure document to learn more about the particular characteristics of each of the services offered within the Program, including whether they may impose restrictions on the investment in certain securities or types of securities.

## **Risks**

### General Risks to Investing

Investing is not without risk, and involves the risk of loss of principal which you should be prepared to bear. We use several strategies to try to reduce risk, including diversifying a portfolio across multiple asset classes and monitoring the portfolio and the markets for changes in fundamentals. Despite these strategies, historical evidence clearly shows that every asset class has experienced severe declines in value—sometimes sustained over many years—throughout several periods of time in history. In addition, each of our strategies to minimize risk may not achieve that goal as the benefits of diversification decline if asset classes become more correlated. As with any investment, you could lose all or part of your investments managed by Advisor Name, and your account's performance could trail that of other investments.

### Asset Class Risk

Securities in your portfolio(s) or in underlying investments such as mutual funds may underperform in comparison to the general securities markets or other asset classes.

### Concentration Risk

To the extent that **Fortiphi Financial, LLC** recommends portfolio allocations that are concentrated in a particular market, industry or asset class, your portfolio may be susceptible to loss due to adverse occurrences affecting that market, industry, or asset class.

### Equity Securities Risk

Equity securities are subject to changes in value that may be attributable to market perception of a particular issuer or general stock market fluctuations that affect all issuers. Investments in equity securities may be more volatile than other types of investments.

### Growth Securities Risk

Growth companies are companies whose earnings growth potential appears to be greater than the market, in general, and whose revenue growth is expected to continue over an extended period. Stocks of growth companies or “growth securities” have market values that may be more volatile than those of other types of investments. Growth securities typically do not pay a dividend.

### Issuer Risk

Your account’s performance depends on the performance of individual securities in which your account invests. Any issuer may perform poorly, causing the value of its securities to decline. Poor performance may be caused by poor management decisions, competitive pressures, changes in technology, disruptions in supply, labor problems or shortages, corporate restructurings, fraudulent disclosures, or other factors. Changes to the financial condition or credit rating of an issuer of those securities may cause the value of the securities to decline.

### Management Risk

The performance of your account is subject to the risk that our investment management strategy may not produce the intended results.

### Market Risk

Your account could lose money over short periods due to short-term market movements and over longer periods during market downturns. The value of a security may decline due to general market conditions, economic trends, or events that are not specifically related to the issuer of the security or to factors that affect a particular industry or industries. During a general downturn in the securities markets, multiple asset classes may be negatively affected.

### Market Trading Risks

Your investment account faces numerous market trading risks, including the potential lack of an active market for investments held in your account and losses from trading in secondary markets.

### Passive Investment Risk

**Fortiphi Financial, LLC** may use a passive investment strategy that is not actively managed where we do not attempt to take defensive positions in declining markets.

### Larger Company Securities Risk

Securities of companies with larger market capitalizations may underperform securities of companies with smaller and mid-sized market capitalizations in certain economic environments. Larger, more established companies might be unable to react as quickly to new competitive challenges, such as changes in technology and consumer tastes. Some

larger companies may be unable to grow at rates higher than the fastest growing smaller companies, especially during extended periods of economic expansion.

#### Leverage Risk

Certain transactions may give rise to a form of leveraging, including borrowing. Such transactions may include, among others, reverse repurchase agreements, loans of portfolio securities, and the use of when-issued, delayed-delivery, or forward-commitment transactions. The use of derivatives may also create leverage. The use of leverage may cause a portfolio to liquidate portfolio positions when it may not be advantageous to do so. Leveraging may make a portfolio more volatile than if the portfolio had not been leveraged. This is because leverage tends to increase a portfolio's exposure to market risk, interest rate risk, or other risks by increasing assets available for investment.

#### Liquidity Risk

A security may not be able to be sold at the time desired without adversely affecting the price.

#### Regulatory Risk

Changes in government regulations may adversely affect the value of a security. An insufficiently regulated industry or market might also permit inappropriate practices that adversely affect an investment.

#### Smaller Company Securities Risk

Securities of companies with smaller market capitalizations, historically, tend to be more volatile and less liquid than larger company stocks. Smaller companies may have no or relatively short operating histories, or be newly public companies. Some of these companies have aggressive capital structures, including high debt levels, or are involved in rapidly growing or changing industries, or new technologies, which pose additional risks.

#### Value Style Investment Risk

Value stocks can perform differently from the market as a whole and from other types of stocks. Value stocks may be purchased based upon the belief that a given security may be out of favor. Value investing seeks to identify stocks that have depressed valuations, based upon a number of factors which are thought to be temporary in nature, and to sell them at superior profits when their prices rise when the issues which caused the valuation of the stock to be depressed are resolved. While certain value stocks may increase in value more quickly during periods of anticipated economic upturn, they may also lose value more quickly in periods of anticipated economic downturn. Furthermore, there is a risk that the factors which caused the depressed valuations are longer term or even permanent in nature, and that there will not be any rise in value. Finally, there is the increased risk that such companies may not have sufficient resources to continue as ongoing businesses, which may result in the stock of such companies becoming worthless.

#### Derivatives Risk

The use of derivatives such as futures, options, and swap agreements can lead to losses, including those magnified by leverage, particularly when derivatives are used to enhance return rather than offset risk.

### Key Man Risk

We are a small firm with one principal executive who is also our Chief Investment Officer (CIO). This fact leads to “key man risk,” or the risk that something could happen to Jeff Flohr that negatively affects your portfolio.

## **Disciplinary Information (Item 9)**

*This section of the brochure lists legal and disciplinary information for **Fortiphi Financial, LLC**, its owners, and management team.*

The **Fortiphi Financial, LLC** owners have not been involved in any civil or criminal investment-related events that must be disclosed by SEC Registered Advisors in this document.

One of our Representatives, Jeff Flohr, has been involved in a dispute filed in 2003. The plaintiffs alleged unsuitable or misleading investment advice and management in breach of fiduciary duties. That claim was denied. The settlement in 2005 is not to be construed as an assessment of the merits of claims or as an acknowledgement of the validity.

State regulators require that all formal investigations and disciplinary actions taken by regulators, customer disputes, certain criminal charges and/or convictions, as well as any Representative’s financial disclosures, such as bankruptcies and unpaid judgments or liens, be filed with FINRA. If this type of information would be material to your decision to do business with Fortiphi Financial, LLC please refer to the SEC’s website and ADV Part 2B for each representative at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) for more information about the Representatives you are evaluating.

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

*This section of the brochure describes other financial services industry affiliations we may have that could present a conflict of interest with you.*

We want you to know that there are certain entities with which Fortiphi Financial, LLC has relationships that may give rise to conflicts of interest, or the appearance of conflicts of interest. These entities include the following:

- Pure & Simple LLC

### Pure & Simple LLC

Mr. Gallant is the 50% owner of Pure & Simple LLC, an entity formed for the purpose of exploring business expansion through acquisition. He owns this entity with his wife, Kathleen Gallant. Pure & Simple LLC is also the holding company for Mr. & Mrs. Gallant’s ownership of Fortiphi Financial, LLC. He spends less than five hours per month on the activities of Pure & Simple LLC.

## **Insurance Agent**

Fortiphi Financial, LLC's investment advisor representatives ("Representatives") may provide advice about matters other than securities. Our Representatives may also act as insurance agents. As insurance agents, they will receive compensation based upon whether or not, and in what amount, clients purchase insurance products through them.

## **Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading (Item 11)**

*This section of the brochure describes our code of ethics, adopted pursuant to SEC rule 204A-1, and how we deal with client and related person trading.*

### **Code of Ethics**

We have adopted a code of ethics designed to prevent and detect violations of securities rules by our employees and affiliated persons. Our controls in this area focus upon securities transactions made by our employees that have access to material information about the trading of Fortiphi Financial, LLC. We will provide a copy of our code of ethics to clients or prospective clients upon request.

### **Material Financial Interest and Personal Trading**

From time-to-time the interests of the principals and employees of Fortiphi Financial, LLC may coincide with yours and other clients. Individual securities may be bought, held, or sold by a principal or employee of Fortiphi Financial, LLC that is also recommended to or held by you or another client. If potential insider information is inadvertently provided or learned by a principal or employee, it is our policy to strictly prohibit its use.

It is the policy of Fortiphi Financial, LLC to permit the firm, its employees and investment advisor representatives ("Representatives") to buy, sell, and hold the same securities that the Representatives also recommend to clients. It is acknowledged and understood that we perform investment services for different types of clients with varying investment goals, risk profiles, and time horizons. As such, the investment advice offered to you may differ from other clients and investments made by our Representatives. We have no obligation to recommend for purchase or sale a security that Fortiphi Financial, LLC, its principals, affiliates, employees, or Representatives may purchase, sell, or hold. When a decision is made to liquidate a security from all applicable accounts, priority will always be given to client orders before those of a related or associated person to Fortiphi Financial, LLC. In some cases the trades of the clients and advisory personnel will be combined in a single block trade, and all trades will receive the average price. We have procedures for dealing with insider trading, employee-related accounts, "front running" and other issues that may present a potential conflict when buy/sell recommendations are made. These procedures include reviewing employee security transactions and holdings to eliminate, to the extent



possible, the adverse effects of potential conflicts of interest on clients. **Fortiphi Financial, LLC will always act consistent with its fiduciary duty.**

## **Brokerage Practices (Item 12)**

*This section of the brochure describes how we recommend broker-dealers for client transactions.*

### **Factors Considered When Recommending Charles Schwab & Co., Inc. as Your Qualified Custodian**

**Fortiphi Financial, LLC** does not maintain custody of your assets that we manage, although we may be deemed to have custody of your assets if you give us authority to withdraw assets from your account (see *Item 15 – Custody*, below). Your assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank. We recommend that our clients use Charles Schwab & Co., Inc. (“Schwab”), a registered broker-dealer, Member SIPC, as the qualified custodian. We are independently owned and operated and are not affiliated with Schwab. Schwab will hold your assets in a brokerage account and buy and sell securities when we instruct them to. While we recommend that you use Schwab as custodian/broker, you will decide whether to do so and will open your account with Schwab by entering into an account agreement directly with them. We do not open the account for you, although we may help you do so. Even though your account is maintained at Schwab, we can still use other brokers to execute trades for your account as described below (see “Your Brokerage and Custody Costs”).

#### How We Select Brokers/Custodians

We seek to recommend a custodian/broker who will hold your assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds, etc.)
- Availability of investment research and tools that help us make investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength, and stability

- Prior service to us and our other clients
- Availability of other products and services that benefit us

### Your Brokerage and Custody Costs

For our clients' accounts that Schwab maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. This commitment benefits you because the overall commission rates you pay are lower than they would be otherwise. In addition to commissions, Schwab charges you a flat dollar amount as a "prime broker" or "trade away" fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account. We have determined that having Schwab execute most trades is consistent with our duty to seek "best execution" of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see "How We Select Brokers/Custodians").

Products and Services Available to Us From Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab's business serving independent investment advisory firms like us. They provide us with access to its institutional brokerage—trading, custody, reporting, and related services—many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts, while others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (we don't have to request them) and at no charge to us as long as our clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab. If our clients collectively have less than \$10 million in assets at Schwab, Schwab may charge us quarterly service fees of \$1,200. Following is a more detailed description of Schwab's support services.

### ***Services That Benefit You***

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

### ***Services That May Not Directly Benefit You***

Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

### ***Services That Generally Benefit Only Us***

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional business entertainment of our personnel.

### **Our Interest in Schwab's Services**

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services so long as our clients collectively keep a total of at least \$10 million of their assets in accounts at Schwab. Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. The \$10 million minimum may give us an incentive to recommend that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see "How We Select Brokers/Custodians") and not Schwab's services that benefit only us.

### **Trade Errors Policy**

From time-to-time we may make an error in submitting a trade order on your behalf. When this occurs, we may place a correcting trade with the broker-dealer which has custody of your account. If an investment gain results from the correcting trade, the gain will remain in your account unless the same error involved other client account(s) that should have received the gain, it is not permissible for you to retain the gain, or we confer with you and you decide to forego the gain (e.g., due to tax reasons). If the gain does not remain in your account and Charles Schwab & Co. Inc. ("Schwab") is the custodian, Schwab will donate the amount of any gain \$100 and over to charity. If a loss occurs greater than \$100, **Fortiphi Financial, LLC** will pay for the loss. Schwab will maintain the loss or gain (if such gain is

not retained in your account) if it is under \$100 to minimize and offset its administrative time and expense. Generally, if related trade errors result in both gains and losses in your account, they may be netted. If the client experiences a loss because of a trade error made by Fortiphi Financial, LLC, we will make the client “whole.”

## **Review of Accounts (Item 13)**

*This section of the brochure describes how often client accounts are reviewed and by whom.*

### **Reviews**

Our advisory associates perform reviews of all investment advisory accounts no less than quarterly. Accounts are reviewed for consistency with the investment strategy and performance. Reviews may be triggered by changes in a client’s personal, tax, or financial status. Macroeconomic and company-specific events may also trigger reviews.

### **Reports**

Fortiphi Financial, LLC prepares and distributes written reports to clients each quarter. These account statements describe all activity in the clients’ accounts including account holdings, transactions, and investment advisory fees deducted from the account. We gather the information on these quarterly reports from sources we believe to be accurate and reliable, but we cannot guarantee their accuracy. **Fortiphi Financial, LLC will always act consistent with its fiduciary duty.**

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

*This section of the brochure discloses our arrangements with people who are compensated for referring us business.*

**Fortiphi Financial, LLC** has not entered into any agreements with third parties to give or receive referrals for compensation.

## **Custody (Item 15)**

*This section of the brochure encourages you to check the statements sent to you by your account custodian to ensure the accuracy of the fee calculation.*

Under government regulations, we are deemed to have custody of your assets if, for example, you authorize us to instruct Schwab to deduct our advisory fees directly from your account. Schwab maintains actual custody of your assets. You will receive account statements directly from Schwab at least quarterly. They will be sent to the email or postal mailing address you provided to Schwab. You should carefully review those statements promptly when you receive them. We also urge you to compare Schwab’s account statements to the quarterly reports you will receive from us.

## Investment Discretion (Item 16)

*This section of the brochure discloses the power we have to make trades in your account.*

Fortiphi Financial, LLC manages client accounts on a discretionary and non-discretionary basis. If you grant **Fortiphi Financial, LLC** discretionary authority over your account, you are giving a limited power of attorney to select, purchase, or sell securities without obtaining your specific consent within the account(s) you have under our management. The limited powers of attorney are granted in the written Investment Advisory Agreement entered into between us. There are no restrictions upon the securities that may be purchased, sold, or held in your account unless you provide these restrictions to us in writing.

## Voting Client Securities (Item 17)

*This section of the brochure explains our proxy voting policy and your ability to get proxy voting information from us.*

**Fortiphi Financial, LLC** will not vote proxies for securities held in your investment account. Your account custodian or transfer agent will send proxy statements directly to you. If the investment account is for a pension or other employee benefit plan governed by ERISA, you direct us not to vote proxies for securities held in the account, because the right to vote such proxies is expressly reserved for you or your plan fiduciary not **Fortiphi Financial, LLC**.

## Financial Information (Item 18)

*This section of the brochure is where investment advisors that collect more than \$500 in fees per client and six months or more in advance would include a balance sheet.*

**Fortiphi Financial, LLC** is not aware of any circumstance that is reasonably likely to impair our ability to meet contractual commitments to you or our other clients. We do not require pre-payment of investment advisory fees of greater than \$500 and more than six months in advance.

## Requirements for State-Registered Advisers (Item 19)

The following individuals are the principal executive officers and management persons of **Fortiphi Financial, LLC**:

- Pierre T. Gallant, Chief Compliance Officer
- Walter C. Young, President
- Jeff E. Flohr, Investment Adviser Representative

The education for Mr. Gallant and Mr. Flohr can be found in their respective brochure supplements (Part 2B of Form ADV).

The education and business background for Walter Young is as follows:

**Walter C. Young**

*Education:*

- Santa Clara University, B.S. in Economics, 1991
- Seattle University, M.B.A. in Finance, 1997

*Business Background:*

- Fortiphi Financial, LLC, President, 2011 – Present
- Mass Mutual, Agent, 2009 – 2011
- Seattle Equity Group, President, 2004 – 2009
- Vitessa, Business Development, 2001 – 2004

**Fortiphi Financial, LLC** is not engaged in any business activity other than giving investment advice.

Neither **Fortiphi Financial, LLC** nor our supervised persons are compensated for advisory services with performance-based fees.

We are required to disclose all material facts regarding certain legal or disciplinary events pertaining to arbitration awards or other civil, regulatory or administrative proceedings in which our firm or management personnel were found liable or against whom an award was granted. Jeff Flohr has been involved in a dispute filed in 2003. The plaintiffs alleged unsuitable or misleading investment advice and management in breach of fiduciary duties. That claim was denied. The settlement in 2005 is not to be construed as an assessment of the merits of claims or as an acknowledgement of the validity.

State regulators require that all formal investigations and disciplinary actions taken by regulators, customer disputes, certain criminal charges and/or convictions, as well as any Representative's financial disclosures, such as bankruptcies and unpaid judgments or liens, be filed with FINRA. If this type of information would be material to your decision to do business with Fortiphi Financial, LLC please refer to the SEC's website and ADV Part 2B for each Representative at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) for more information about the Representatives you are evaluating.

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**Fortiphi Financial, LLC** or our representatives have a relationship or arrangement with Flohr Asset Management, LLC which is an issuer of securities.

## Privacy Statement

*We, like other professionals who advise on personal financial matters, are required by federal law to inform our clients of their policies regarding the privacy of client information.*

In the course of providing our clients with certain advice, we may receive nonpublic personal financial information such as financial statements, account statements, and tax returns from our clients, their accountants and other representatives. All nonpublic personal information that we receive regarding our clients or former clients is held in strict confidence in accordance with our professional obligations, and is not released to people outside **Fortiphi Financial, LLC**, except with your consent, as required by law or to explain our actions to professional organizations that we are members of. We may share certain information with third parties who assist us in providing our services to you (such as administrative and client service functions) or marketing services, as permitted by law, subject to the obligation of these third parties not to use or disclose such information for any other purpose.

We retain records relating to professional services that we provide so that we are better able to assist you with your professional needs and, in some cases to comply with professional guidelines. In order to guard your nonpublic personal information from unauthorized disclosure, we maintain physical, electronic, and procedural safeguards.