

---

**PART 2A APPENDIX 1 OF FORM ADV: WRAP FEE BROCHURE**

**DATED MARCH 15, 2012**

---

## **delphi PRIVATE ADVISORS**

4747 EXECUTIVE DRIVE, SUITE 1020  
SAN DIEGO, CA 92121  
PHONE: (858) 222-8065

**FIRM CONTACT: MARC L. CHANNICK, CHIEF COMPLIANCE OFFICER**

**FIRM'S WEBSITE ADDRESS: [www.delhiprivateadvisors.com](http://www.delhiprivateadvisors.com)**

This wrap fee brochure provides information about the qualifications and business practices of Delphi Private Advisors. If you have any questions about the contents of this brochure, please contact our firm by telephone at (858) 222-8050 or by email at [marc@delhiprivate.com](mailto:marc@delhiprivate.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 Delphi Private Advisors also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Please note that the use of the term "registered investment adviser" and description of Delphi Private Advisors and/or our associates as "registered" does not imply a certain level of skill or training. You are encouraged to review this Brochure and Brochure Supplements for our firms' associates who advise you for more information on the qualifications of our firm and its employees.

**ITEM 2. MATERIAL CHANGES TO PART 2A APPENDIX 1**  
**(WRAP FEE BROCHURE) OF OUR FORM ADV:**

---

Delphi Private Advisors is required to advise you of any material changes to our Wrap Fee Program Brochure ("Wrap Brochure") from our last annual update, identify those changes on the cover page of our Wrap Brochure or on the page immediately following the cover page, or in a separate communication accompanying our Wrap Brochure. We must state clearly that we are discussing only material changes since the last annual update of our Wrap Brochure, and we must provide the date of the last annual update of our Wrap Brochure.

Please note we do not have to provide this information to a client or prospective client who has not received a previous version of our Wrap Brochure.

Last Annual Amendment Filing Date: 03/29/2011

Since our last annual amendment, Delphi Private Advisors have made no material changes to our Wrap Fee Brochure.

### ITEM 3 – TABLE OF CONTENTS

---

| <b><u>Topic:</u></b>  | <b><u>Page(s):</u></b> |
|---|------------------------|
| Item 4 - Services, Fees and Compensation .....                  | 4                      |
| Item 5 - Account Requirements and Types of Clients.....         | 6                      |
| Item 6 - Portfolio Manager Selection and Evaluation.....        | 6                      |
| Item 7 - Client Information Provided to Portfolio Managers..... | 10                     |
| Item 8 - Client Contact with Portfolio Managers .....           | 11                     |
| Item 9 - Additional Information .....                           | 11                     |

## ITEM 4 - SERVICES, FEES AND COMPENSATION

---

### A. Description of our Services and Fees

In our Wrap Fee Program, we construct and manage globally-diversified investment portfolios for our clients, with an emphasis on continuous and regular account supervision. Our clients' portfolios generally consist of individual stocks or bonds, exchange traded funds ("ETFs"), options, mutual funds and other public and private securities or investments. Each client's individual investment strategy is tailored to their specific needs and may include some or all of the previously mentioned securities. Each portfolio will be initially designed to meet a particular investment goal, which we determine to be suitable to the client's circumstances. Once the appropriate portfolio has been determined, we review the portfolio at least quarterly and if necessary, rebalance the portfolio based upon the client's individual needs, stated goals and objectives. Each client has the opportunity to place reasonable restrictions on the types of investments to be held in the portfolio.

We may utilize independent money managers to oversee parts of our clients' portfolios. Before selecting other managers, we make sure that they are properly licensed or registered.

#### **FEE SCHEDULE: Delphi Private Advisors Wrap Fee Program**

| <b>Assets under Management</b> | <b>Annual Advisory Fee</b> |
|--------------------------------|----------------------------|
| \$0-\$1,000,000                | 1.30%                      |
| \$1,000,000-\$2,000,000        | 0.90%                      |
| \$2,000,000-\$5,000,000        | 0.80%                      |
| \$5,000,000-\$10,000,000       | 0.70%                      |
| \$10,000,000-\$25,000,000      | 0.50%                      |
| \$25,000,000+                  | Negotiable                 |

Tiered-Blended Pricing Schedule: The actual fees charged to a client account are a blending of the rates above. For example, a client with \$2,000,000 of assets under management would pay 1.30% annually on the first \$1,000,000 and 0.90% on the second \$1,000,000. The resulting blended fee would be 1.10%.

Our firms' fees are billed on a pro-rata annualized basis quarterly in advance based on the value of your account on the last day of the previous quarter. The only exception to this is that the first full quarter's advisory fee may include an additional pro-rata charge in arrears for the time your assets were managed by us during the previous quarter.

In certain cases, fees may be negotiable. Factors which may affect whether fees are negotiable include, but are not limited to, a client's prior relationship with our firm and the overall size of a client's account.

No part of our fee is paid to the outside portfolio managers that we use, and no part of the fees that those outside portfolio managers charge are paid to us.

**B. Relative Cost of the Program**

A wrap fee program allows our clients to pay a specified fee for investment advisory services and the execution of transactions. The advisory services may include portfolio management and/or advice concerning selection of other advisers, and the fee is not based directly upon transactions in your account. Your fee is bundled with our costs for custodial services with an independent custodian and executing transactions in your account(s). This results in a higher advisory fee to you. In some instances, Schwab does charge transaction fees to clients, in which case, our firm will reimburse the client those fees. We do not charge our clients higher advisory fees based on their trading activity. By participating in a wrap fee program, you may end up paying more or less than you would through a non-wrap fee program where a lower advisory fee is charged, but trade execution costs are passed directly through to you by the executing broker.

**C. Additional Fees**

The wrap fee paid by our clients does not include the following separately incurred expenses, of which we do not receive any part:

(1) charges imposed directly by a mutual fund, index fund, or exchange traded fund, which shall be disclosed in the fund's prospectus (i.e., fund management fees and other fund expenses); and

(2) charges imposed directly by independent money managers for their services.

**D. Advisor Compensation**

Our investment advisory representatives may receive a portion of the advisory fee that you pay us, either directly as a percentage of your overall fee or as their salary from our firm. In cases where our investment advisory representatives are paid a percentage of your overall advisory fee, this may create an incentive to recommend that you participate in a wrap fee program rather than a non-wrap fee program (where you would pay for trade execution costs) or brokerage account where commissions are charged. This is because, in some cases, we may stand to earn more compensation from advisory fees paid to us through a wrap fee program arrangement if your account is not actively traded.

## **ITEM 5 - ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS**

---

We generally require a minimum annual fee of \$7,500 for our asset management service. This requirement may be waived in certain cases at our discretion.

We work with the following types of clients:

- Individuals
- Trusts, Estates or Charitable Organizations
- Pension and Profit Sharing Plans
- Corporations, limited liability companies and/or other business entities

## **ITEM 6 - PORTFOLIO MANAGER SELECTION AND EVALUATION**

---

### **A. Selection and Review of Portfolio Managers**

Our firm selects and reviews outside portfolio managers based on the following factors:

- past performance
- investment philosophy
- market outlook
- experience of portfolio managers and executive team
- disciplinary, legal and regulatory histories of the firm and its associates
- whether established compliance procedures are in place to address at a minimum, insider trading, conflicts of interest, anti-money laundering

#### **1. Standards we use to calculate Portfolio Manager performance**

Our firm utilizes the Global Investment Performance Standards (GIPS®) as established and maintained by the CFA Institute. GIPS® is a set of standardized, industry-wide ethical principles that provide investment firms with guidance on how to calculate and report their investment results to prospective and existing clients.

#### **2. Review of Portfolio Managers**

We do not review third party performance information provided to us by outside portfolio managers. Instead, we have hired Adhesion Wealth Advisors Solutions to do so. They utilize

GIPS® to calculate and verify investment results reported to us, which are in turn presented to prospective and existing clients.

**3. Acting as a Portfolio Manager**

Our firm and its related persons may act as portfolio managers for a portion of the wrap fee program described in this Wrap Fee Program Brochure. This may create a conflict of interest in that other invest advisory firms may charge the same or lower fees than our firm for similar services. In addition, you should be aware that our firm cannot actively monitor outside portfolio managers' conflicts of interest, daily trading activity and other operational issues.

**B. Advisory Business, Performance-Based Fees and Side- By-Side Management, Methods of Analysis, Investment Strategies and Risk of Loss, and Voting Client Securities**

**1. Advisory Business**

Please see our response to Item 4.A of this Wrap Fee Program Brochure for information about our wrap fee advisory program. We offer individualized investment advice to every client. Clients may request reasonable restrictions on investing in certain securities or types of securities. The determination of whether a particular client request is reasonable and feasible is made on a case-by-case basis. We currently only offer wrap fee accounts to our clients, which are managed on an individualized basis according to the client's investment objectives, financial goals and risk tolerance.

**2. Performance-Based Fees and Side-by-Side Management**

We do not charge performance fees to our clients.

**3. Methods of Analysis, Investment Strategies and Risk of Loss:**

**a.) Methods of Analysis**

We may use one or more of the following methods of analysis in formulating our investment advice and/or managing client assets:

***Fundamental Analysis.*** We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell). Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

***Technical Analysis.*** We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement. Technical analysis does not consider the underlying financial

condition of a company. This presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement.

***Cyclical Analysis.*** In this type of technical analysis, we measure the movements of a particular stock against the overall market in an attempt to predict the price movement of the security.

#### **b.) Investment Strategies**

Our investment strategy focuses primarily on asset allocation, as we believe that the combination of asset classes used in a client's portfolio will have significantly more impact on the portfolio's long-term returns than the selection of particular securities. We build diversified portfolios, blending together asset classes that do not move in the same direction at the same time, which has the effect of reducing risk without significantly affecting the portfolio's long-term expected return.

We also firmly believe in market efficiency, which is the theory that, over time, equity markets express the "rational" price for securities (although there can be short periods of significant irrationality). Accordingly, we do not believe that one can outperform the stock market in the long run by active management or "stock-picking". Additionally, as we are long-term investors, we do not practice "market timing".

Finally, we believe that how the portfolio is constructed and managed can have a significant effect on returns. First, we focus on reducing portfolio costs through the use of institutional class shares of mutual funds wherever possible. Next, we practice active tax management at both the asset class and portfolio level, with a goal of maximizing our clients' after-tax returns. Third, we have a systemic rebalancing discipline, which keeps portfolios at their desired risk/reward profiles while at the same time making sure that our clients buy low and sell high at the asset class level whenever possible.

#### **c.) Risk of Loss**

Investing in securities involves risk of loss that clients should be prepared to bear. While the stock market may increase and your account(s) could enjoy a gain, it is also possible that the stock market may decrease and your account(s) could suffer a loss. It is important that you understand the risks associated with investing in the stock market, are appropriately diversified in your investments, and ask us any questions you may have. Examples of risks that may be present in investing include:

***Capitalization Risk.*** The risk that mid-capitalization and small-capitalization stocks may be more volatile than the large-capitalization stocks, and may at times underperform as compared to large-capitalization stocks.

***Company Risk.*** The risk that a particular company's stock will suffer losses for reasons unique to that company (also known as "unsystematic risk").



**Credit Risk.** The risk that a bond issuer fails to pay interest and/or principal on their obligations in a timely fashion.

**Currency Risk.** The risk that investments in stocks denominated in other currencies will lose value because of a rise in the value of the dollar relative to those currencies.

**Foreign Exposure Risk.** The risk that investments in foreign markets, including emerging markets may be more volatile than the U.S. markets due to fluctuations in currency exchange rates or political or economic conditions in a particular country. Investing in emerging markets countries may involve risks greater than the risks of investing in more developed foreign countries.

**Inflation Risk.** The risk that in the future, your investments or proceeds from your investments will not be worth what they are today due to the rising costs of goods and services. Said another way, a dollar tomorrow will likely get you less than what it can today.

**Interest Rate Risk.** The risk that the price of bond holdings will decline due to a rise in interest rates. Changes in price will generally be greater for longer-maturity bonds than for bonds with shorter maturities.

**Legal/Regulatory Risk.** The risk that changes in state or federal laws and/or regulations will negatively impact the performance or tax treatment of certain investments.

**Liquidity Risk.** The risk that certain investments may not be readily converted into cash due to the nature of those investments or changes in market conditions. This may negatively impact the ultimate price at which an investment is sold.

**Management Strategy Risk.** The risk that the strategies and techniques utilized by the outside managers who oversee different parts of our clients' portfolios will not achieve their intended results, leading to underperformance against a conventional index or benchmark and/or other funds with a similar investment objective.

**Market Risk.** The risk that the value of investments can fall, sometimes sharply, in response to economic changes or other events that affect the capital markets as a whole (also known as "systematic risk").

**Prepayment Risk.** The risk that a bond may be repurchased or redeemed by the issuer before maturity. Depending upon the redemption price, the investor may receive a lower than expected return on the security.

**Reinvestment Risk.** The risk that bond proceeds (principal and/or interest) may have to be reinvested at a lower yield than what the investor received from the original security due to intervening changes in interest rates.

#### **4. Voting Client Securities**

Our firm votes proxies for securities held in client accounts when authorized to do so in writing by a client. We understand our duty to vote client proxies and to do so in the best interest of our clients.

Pursuant to SEC Rule 206(4)-6, we have adopted written proxy voting policies and procedures. In voting proxies, we consider only those factors that relate to the client's investment, including how its vote will economically impact and affect the value of the client's investment (keeping in mind that, after conducting an appropriate cost-benefit analysis, not voting at all on a presented proposal may be in the best interest of the client).

Proxy votes generally will be cast in favor of proposals that: (a) maintain or strengthen the shared interests of shareholders and management; (b) increase shareholder value; (c) maintain or increase shareholder influence over the issuer's board of directors and management; and/or (d) maintain or increase the rights of shareholders. Proxy votes generally will be cast against proposals that would have the opposite effect(s).

We subscribe to a proxy monitor and voting agent service offered by Broadridge Investor Communication Solutions, Inc. ("Broadridge"), which includes access to proxy analyses with research and vote recommendations from Glass, Lewis & Co. ("Glass Lewis"). Our firm will generally vote in accordance with the recommendations of Glass Lewis, but may vote in a different fashion on particular votes if we determine that such actions are in the best interest of our clients. Where applicable, we will consider any specific voting guidelines designated in writing by a client.

In exercising our proxy voting discretion, we will avoid any direct or indirect conflicts of interest between our interests and those of our clients. We will provide adequate disclosure to our clients if any substantive aspect or foreseeable result of the subject matter to be voted upon raises an actual or potential conflict of interest between us and our clients. After informing our clients of any actual or potential conflict of interest, we will take appropriate action to resolve the conflict before voting those proxies, as described in more detail in our written policies and procedures regarding proxy voting.

Clients may request a copy of our written policies and procedures regarding proxy voting and/or information on how particular proxies were voted by contacting our Chief Compliance Officer, Marc Channick by phone at (858) 222-8065 or email at [marc@delphiprivate.com](mailto:marc@delphiprivate.com).

#### **ITEM 7 - CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS**

---

Our firm communicates with portfolio managers on a regular basis as needed to ensure our clients' most current investment goals and objectives are understood by the portfolio managers. Where appropriate, we will also communicate certain limited personal information relating to our clients' tax circumstances if that information will assist a portfolio manager in most effectively managing a client account. In most cases, we will communicate such information as part of our regular investment management duties.

Nevertheless, we will also communicate information to portfolio managers when you ask us to, or when market or economic conditions make it prudent to do so.

## **ITEM 8 - CLIENT CONTACT WITH PORTFOLIO MANAGERS**

---

We ask that our clients direct questions regarding their accounts to our firm. As appropriate, we will communicate those questions to outside portfolio managers and provide clients with their responses.

## **ITEM 9 - ADDITIONAL INFORMATION**

---

### **A. Disciplinary Information and Other Financial Industry Activities and Affiliations**

Our firm and its owners and employees have not been involved in any legal or disciplinary events that would be material to the evaluation of our firm or the integrity of our management. Further, we have no other financial industry activities and affiliations to disclose.

### **B. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading, Review of Accounts, Client Referrals and Other Compensation, and Financial Information**

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

##### **a.) Description of Code of Ethics**

We recognize that the personal investment transactions of members and employees of our firm demand the application of a high Code of Ethics and require that all such transactions be carried out in a way that does not endanger the interest of any client. At the same time, we believe that if investment goals are similar for clients and for members and employees of our firm, it is logical and even desirable that there be common ownership of some securities.

Therefore, in order to prevent conflicts of interest, we have in place a set of procedures (including a pre-clearing procedure) with respect to transactions effected by our members, officers and employees for their personal accounts.<sup>1</sup> In order to monitor compliance with our personal trading policy, we have a quarterly securities transaction reporting system for all of our associates.

Furthermore, our firm has established a Code of Ethics which applies to all of our associated persons. An investment adviser is considered a fiduciary. As a fiduciary, it is an investment

---

<sup>1</sup> For purposes of the policy, our associate's personal account generally includes any account: (a) in the name of our associate, his/her spouse, his/her minor children or other dependents residing in the same household; (b) for which our associate is a trustee or executor; or (c) which our associate controls, and/or in which a member of his/her household has a direct or indirect beneficial interest.

adviser'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. We have a fiduciary duty to all clients. Our fiduciary duty is considered the core underlying principle for our Code of Ethics which also includes Insider Trading and Personal Securities Transactions Policies and Procedures. We require all of our 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 our Code of Ethics. Our firm and 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 our Code of Ethics. However, if a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided promptly upon request. Such requests can be made by contacting our Chief Compliance Officer, Marc Channick, by phone at (858) 222-8065 or email at [marc@delphiprivate.com](mailto:marc@delphiprivate.com).

**b.) Purchases/Sales By Owners/Employees**

Related persons of our firm are encouraged to invest their money in the same way as our clients and, accordingly, may invest in securities that are also recommended to clients. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics, a copy of which is available upon request.

**c.) Timing of Purchases/Sales by Owners/Employees**

Related persons of our firm are encouraged to invest their money in the same way as our clients and, accordingly, may buy or sell securities for themselves at or about the same time they buy or sell the same securities for client accounts. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics, a copy of which is available upon request.

**2. Review of Accounts**

We review client accounts on at least a bi-weekly basis. These reviews are done by one or more of the principals of the firm, as well as our internal portfolio manager. The nature of these reviews is to learn whether clients' accounts are in line with their investment objectives and appropriately positioned based on market conditions.

We may review client accounts more frequently than described above. Among the factors which may trigger an off-cycle review are major market or economic events, client life events and/or specific requests by the client.

We provide written reports to clients on a monthly basis. Verbal reports to clients preferably take place on a quarterly basis, but at least on an annual basis.

### **3. Client Referrals and Other Compensation**

#### **a.) Economic Benefits From Others**

Our firm generally recommends that clients establish brokerage accounts with Charles Schwab & Co., Inc., registered broker-dealer, Member SIPC ("Schwab") to maintain custody of their assets and to effect trades for their accounts. Schwab may provide us with access to their institutional custody and trading services, which are typically not available to Schwab retail investors. Schwab's services may also include research and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment. Please note, however, that our firm is independently owned and operated and not affiliated with Schwab, and we may recommend that clients establish accounts with firms other than Schwab.

For client accounts maintained in their custody, Schwab does not charge separately for trading, but is compensated by our firm out of the advisory fees that we charge. Our firm places trades for clients' accounts subject to its duty to seek best execution and its other fiduciary duties. While our firm may use broker-dealers other than Schwab to execute trades for client accounts maintained at Schwab, this practice may result in additional costs to clients, so that we are more likely to place trades through Schwab rather than other broker-dealers. Schwab's execution quality may be different than other broker-dealers. Neither our firm, nor any of its principals and/or employees, receives any portion of the brokerage commissions and/or transaction fees directly charged by a broker-dealer to our firm or charged to Client by a broker-dealer, which are then absorbed by our firm and credited back to Client.

Our firm may have arrangements with Schwab which provide us with their "platform" services. Schwab's services include, among others, brokerage, custodial, administrative support, record keeping and related services that are intended to support our firm in conducting business and in serving the best interests of our clients.

Schwab also makes certain research services available at no additional cost to our firm, including services obtained by Schwab directly from independent research companies, as selected by our firm (within specific parameters). Research products and services provided by Schwab to our firm may include research reports on recommendations or other information about, particular companies or industries; economic surveys, data and analyses; financial publications; portfolio evaluation services; financial database software and services; computerized news and pricing services; quotation equipment for use in running software used in investment decision-making; and other products or services that provide lawful and appropriate assistance by Schwab to our firm in the performance of our investment decision-making responsibilities. The aforementioned research services are used by our firm to manage accounts for which we have investment discretion. Without this arrangement, our firm might be compelled to purchase the same or similar services at our own expense. The investment research products and services that may be obtained by our firm will generally be used to service all of our clients.

We may also gain access to non soft-dollar products and services that will help us in managing and administering client accounts. These include software and other technology that: provide access to client account data (i.e. trade confirmations and account statements); facilitate trade executions; provide research, pricing information, and other market data; facilitate in the payment of our firm's fees from its clients' accounts; and assist with back-office functions, record-keeping, and client reporting. Many of these services may be used to service all or a substantial number of our accounts.

As a result of receiving the services for no additional cost, we may have an incentive to continue to use or expand the use of Schwab's services. Our firm examined this potential conflict of interest when we chose to enter into the relationship with Schwab and we have determined that the relationship is in the best interest of our firm's clients and satisfies our client obligations, including our duty to seek best execution.

Schwab charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions). In some instances, Schwab does charge transaction fees to clients, in which case, our firm will reimburse the client those fees. Schwab enables us to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Schwab's commission rates are generally discounted from customary retail commission rates. However, the commission and transaction fees charged by Schwab may be higher or lower than those charged by other custodians and broker-dealers.

Schwab also makes available to our firm other products and services that benefit us, but may not benefit our clients' accounts. These non soft-dollar benefits may include national, regional or investment adviser specific educational events organized and/or sponsored by Schwab. Other potential benefits may include occasional business entertainment of personnel of our firm by Schwab personnel, including meals, invitations to sporting events, including golf tournaments, and other forms of entertainment, some of which may accompany educational opportunities. Schwab also makes available to our firm other services intended to help our firm manage and further develop our business enterprise. These services may include professional compliance assistance, legal and business consulting, and publications and conferences on practice management, information technology, business succession, regulatory compliance, employee benefits providers, human capital consultants, insurance, and marketing. In addition, Schwab may make available, arrange and/or pay vendors for these types of services rendered to our firm by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to our firm. While, as a fiduciary, our firm endeavors to act in its clients' best interests, our recommendation/requirement that clients maintain their assets in accounts at Schwab may be based in part on the benefit to our firm of the availability of some of the foregoing products and services and other arrangements and not solely on the nature, cost, or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

From time to time, our firm may make an error in submitting a trade order on a client's behalf. When this occurs, we may place a correcting trade with the broker-dealer which has custody of the client's account. If an investment gain results from the correcting trade, the gain will remain in the client's account unless the same error involved other client account(s) that should have received the gain, it is not permissible for the client to retain the gain, or our firm confers with the client and the client decides to forego the gain (e.g., due to tax reasons). If the gain does not remain in the client's account and Schwab is the custodian, Schwab will donate the amount of any gain \$100 and over to charity. If a loss occurs greater than \$100, we will pay for the loss. Schwab will maintain the loss or gain (if such gain is not retained in the client's 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 the client's account, they may be netted.

Schwab has provided a loan to our firm to assist its business operations, and the loan is guaranteed by **Marc Channick, Darren Reinig, and Keith McKenzie**, principal(s) of our firm. The terms of the loan require that management fees to us be paid to an account at Schwab for deduction of interest and principal payments pursuant to the loan before we may have access to that fee payment. The loan agreement contains various representations by us, including that we will maintain **\$195 million in assets under management**, and various events of default, including that our firm will comply with all laws, contracts, licenses and permits. In the event of an unheeded default under the terms of the loan agreement, Schwab may terminate and/or accelerate the loan, which may have a material adverse effect on our ability to perform services for our clients.

**b.) Compensation to Others**

While we receive client referrals from, among others, existing clients, accountants, attorneys and bankers, we do not pay for those referrals.

**4. Financial Information**

a.) We are not required to provide financial information to our clients because:

- 1.) We do not require the prepayment of more than \$1,200 in fees and six or more months in advance.
- 2.) We do not take custody of client funds or securities.
- 3.) We do not have a financial condition or commitment that impairs its ability to meet contractual and fiduciary obligations to clients.

b.) We have never been the subject of a bankruptcy proceeding.