

**Item 1: Cover Page**

**Part 2A of Form ADV  
Firm Brochure**

May 3, 2012

**Cornerstone Financial Planning, Inc.**

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This brochure provides information about the qualifications and business practices of Cornerstone Financial Planning, Inc. If you have any questions about the contents of this brochure, please contact us at [john@cornerstoneria.com](mailto:john@cornerstoneria.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 regulator. Registration with the SEC or any State regulatory does not imply a certain level of skill or expertise.

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

## **Item 2: Material Changes**

This Firm Brochure is our disclosure document prepared according to new regulatory requirements and rules. As you will see, this document is a narrative that is substantially different in form and content, and includes some new information that we were not previously required to disclose.

Consistent with the new rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

## Item 3: Table of Contents

Item 1: Cover Page.....	1
Item 2: Material Changes .....	2
Item 3: Table of Contents.....	3
Item 4: Advisory Business.....	6
A. Description of Your Advisory Firm.....	6
B. Description of Advisory Services Offered.....	6
C. Client-Tailored Services and Client-Imposed Restrictions.....	8
D. Wrap Fee Programs.....	9
E. Client Assets Under Management .....	9
Item 5: Fees and Compensation.....	10
A. Methods of Compensation and Fee Schedule.....	10
B. Client Payment of Fees.....	11
C. Additional Client Fees Charged .....	11
D. Prepayment of Client Fees .....	12
E. External Compensation for the Sale of Securities to Clients.....	12
Item 6: Performance-Based Fees and Side-by-Side Management.....	13
Item 7: Types of Clients.....	14
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss .....	15
A. Methods of Analysis and Investment Strategies .....	15
B. Investment Strategy and Method of Analysis Material Risks .....	17
C. Security-Specific Material Risks .....	20
Item 9: Disciplinary Information .....	21
A. Criminal or Civil Actions.....	21
B. Administrative Enforcement Proceedings.....	21
C. Self-Regulatory Organization Enforcement Proceedings .....	21
Item 10: Other Financial Industry Activities and Affiliations.....	22
A. Broker-Dealer or Representative Registration .....	22
B. Futures or Commodity Registration.....	22
C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest.....	22

D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest.....	22
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	23
A. Code of Ethics Description.....	23
B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest .....	24
C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest .....	24
D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest.....	24
Item 12: Brokerage Practices .....	25
A. Factors Used to Select Broker-Dealers for Client Transactions.....	25
B. Aggregating Securities Transactions for Client Accounts.....	26
Item 13: Review of Accounts .....	29
A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved.....	29
B. Review of Client Accounts on Non-Periodic Basis.....	29
C. Content of Client-Provided Reports and Frequency.....	29
Item 14: Client Referrals and Other Compensation.....	30
A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest .....	30
B. Advisory Firm Payments for Client Referrals.....	30
Item 15: Custody .....	31
Item 16: Investment Discretion.....	32
Item 17: Voting Client Securities.....	33
Item 18: Financial Information .....	34
A. Balance Sheet.....	34
B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients .....	34
C. Bankruptcy Petitions During the Past Ten Years .....	34
Item 19: Requirements for State-Registered Advisors .....	35
A. Principal Executive Officers and Management Persons.....	35
B. Outside Business Activities Engaged In .....	35

C. Performance-Based Fee Description.....	35
D. Disclosure of Material Facts Related to Arbitration or Disciplinary Actions Involving Management Persons.....	35
E. Material Relationships Maintained by this Advisory Business or Management Persons with Issuers of Securities .....	35
Item 20: Privacy Policy .....	36

## Item 4: Advisory Business

### A. Description of Your Advisory Firm

Cornerstone Financial Planning, Inc. ("CFPI"), is a Wisconsin Corporation that provides financial planning and investment advisory services to high-net-worth clients as more fully described below. John Wolf is the President and CEO of Cornerstone Financial Planning, Inc. CFPI has been providing financial planning and investment advisory services since October of 2009.

### B. Description of Advisory Services Offered

CFPI offers investment advisory and financial planning services to its clients.

CFPI is an independent financial planning and investment advisory firm offering a variety of financial services to individuals, trusts, corporations, partnerships, retirement plans, tax exempt and other legal entities.

#### B.1. Investment Advisory and Portfolio Monitoring Services

CFPI provides clients with investment recommendations predicated on asset allocation models to create diversified portfolios consisting of mutual funds, exchange traded funds, portfolios managed by separate account managers engaged by the client, and, in appropriate cases involving qualified clients, investments in private placements. The asset allocation methodology employed by CFPI relies on *modern portfolio theory*, which involves the application of certain mathematical principles to the historical performance of certain asset classes and the combination of these asset classes to identify an asset allocation designed to seek a projected rate of return consistent with the client's investment objectives, goals, and tolerance for risk and other personal and financial circumstances. In preparing the asset allocation, CFPI will analyze each client's current investments, investment objectives, goals, age, time horizon, financial circumstances, investment experience, investment restrictions and limitations, and risk tolerance. CFPI's objective is to review the client's tax and estate planning objectives and goals in connection with the client's investment objectives, goals, tolerance for risk and other personal and financial circumstances and make appropriate recommendations. CFPI may engage third-party service providers to assist with the tax and estate planning portion of the services provided to clients. In addition, CFPI may utilize third-party software to analyze individual security holdings and separate account managers utilized within the client's portfolio.

CFPI will prepare an investment policy statement based on the client's investment objectives, goals and tolerance for risk and such other factors unique to the client and provide appropriate recommendations. On a quarterly basis, CFPI, in connection with a third-party service provider, will provide such clients with reports regarding the performance of their portfolios. In addition, CFPI will monitor those portfolios and make additional recommendations from time to time to rebalance and/or reallocate each client's investments in accordance with such client's investment policy statement as necessary.

CFPI's investment advisory services to clients are based on asset allocation models that, as noted above, take into account a client's personal financial circumstances, investment objectives and tolerance for risk (e.g., cash-flow, tax and estate). CFPI's engagement with a client will include, as appropriate, the following:

- Providing assistance in reviewing the client's current investment portfolio against the client's personal and financial circumstances as disclosed to CFPI in response to a questionnaire and/or in discussions with the client and reviewed in meetings with CFPI.
- Analyzing the client's financial circumstances, investment holdings and strategy, and goals.
- Providing assistance in identifying a targeted asset allocation and portfolio design based on modern portfolio theory.
- Recommending mutual funds, exchange traded funds, portfolios managed by separate account managers, and, in appropriate cases, private placements, each matched to the asset categories in the client's targeted asset allocation for consideration by the client.
- Reporting to the client on a quarterly basis or at some other interval agreed to with the client, information on contributions and withdrawals in the client's investment portfolio and the performance of the client's portfolio measured against appropriate benchmarks (including benchmarks selected by the client).
- Proposing changes in the client's investment policy statement and/or targeted asset allocation in consideration of changes in the client's personal circumstances, investment objectives and tolerance for risk, the performance record of any of the client's investments, and/or the performance of any mutual fund or manager retained by the client.
- Providing recommendations to hedge a client's portfolio through the use of derivative strategies or to generate additional income through the use of covered call option writing strategies involving exchange listed or OTC options and/or to monetize or hedge concentrated stock positions.

In addition to providing CFPI with information regarding their personal financial circumstances, investment objectives and tolerance for risk, clients are required to provide CFPI with any reasonable investment restrictions that should be imposed on the management of their portfolio, and to promptly notify CFPI of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals and tolerance for risk. On a quarterly basis, CFPI's reports to clients will remind clients of their obligation to inform CFPI of any such changes or any restrictions that should be imposed on the management of the client's account. CFPI will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

When appropriate to the needs of, and suitability for, a client, CFPI will assist the client in developing a strategy for monetizing/hedging a portfolio or a concentrated stock position held by the client. Monetizing a concentrated stock position allows a client to receive funds to diversify its portfolio and limit its downside exposure while allowing for the continued potential to participate, to a lesser extent, in any increase in the price of the concentrated stock. Hedging

a concentrated stock position allows a client to protect against losses below a certain stock price while allowing for the potential to participate in any increase in the price of the stock.

## **B.2. Financial Planning Services**

Clients will receive a written or oral report (depending on the client's preference) providing them with a detailed financial plan designed to help achieve their stated financial goals and objectives. Based on the client's needs, financial planning services may include (but is not limited to) preparation of the following:

- A recommended asset allocation that serves to diversify the client's portfolio among different categories of investments such as small, medium and large capitalization securities; corporate and government fixed income (short, intermediate and long term maturities); emerging market securities (i.e., foreign issuers); and such other asset categories that are suitable in light of the client's investment goals, objectives and risk tolerance.
- An investment policy statement setting forth the investment plan of the client with specific direction in terms of diversification requirements, tax issues, estate planning issues, risk tolerance, retirement and other identified objectives of the client, including a targeted rate of return objective.
- A retirement plan that serves to identify whether the client is saving enough and investing in a way that meets retirement objectives in light of the client's financial circumstances and risk tolerance.
- Cash flow projections to ensure the client can meet daily living expenses and obligations.
- An insurance plan to meet the needs of the client, taking into account family, business and other financial objectives of the client.
- An estate plan to ensure wealth transition, tax and related issues are met in accordance with the client's wishes. In many instances, an outside attorney will need to be hired to handle specific legal issues that arise in the formation and implementation of an estate plan.

CFPI gathers required information through in-depth personal interviews and questionnaires. Information gathered includes the client's current financial status, investment objectives, future goals and attitudes towards risk. Related documents supplied by the client are carefully reviewed, and a report is prepared covering one or more of the above-mentioned topics as directed by the client.

## **C. Client-Tailored Services and Client-Imposed Restrictions**

Each client's account will be managed on the basis of the client's financial situation and investment objectives, and in accordance with any reasonable restrictions imposed by the client on the management of the account. (See Items 4B.1. and 4B.2 above.) Clients may impose reasonable restrictions on the management of their accounts. For example, a client may restrict the type or amount of security to be purchased in the portfolio.



#### **D. Wrap Fee Programs**

CFPI does not participate in wrap fee programs. (Wrap fee programs offer services for one all-inclusive fee.)

#### **E. Client Assets Under Management**

As of March 31, 2012, CFPI has \$26,000,000 of non-discretionary assets under management.

## Item 5: Fees and Compensation

### A. Methods of Compensation and Fee Schedule

#### A.1. Investment Advisory and Portfolio Monitoring Fees

The annual fee for services provided by CFPI will be charged as a percentage of assets under supervision by CFPI. The fees will be computed in the following manner:

Basis point charge X market value of assets X actual number of days / 365 days

CFPI's asset-based fee schedule for accounts is detailed below, although such fee schedule is negotiable.

<u>Assets Under Supervision</u>	<u>Annual Fee Rate (%)</u>
\$0–\$500,000	1.00% (0.25% qtr)
\$500,001–\$2,000,000	0.90% (0.225% qtr)
\$2,000,001–\$5,000,000	0.80% (0.20% qtr)
\$5,000,000+	Negotiable

The client authorizes the custodian to automatically deduct the fee and all other charges payable hereunder from the assets in the account when due, with such payments to be reflected on the next account statement sent to the client. If insufficient cash is available to pay such fees, securities in an amount equal to the balance of unpaid fees will be liquidated to pay for the unpaid balance. CFPI may modify the fee at any time upon thirty (30) days written notice to the client.

Generally, fees will be charged quarterly in advance. Clients will be invoiced at the beginning of each calendar quarter based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of the previous quarter.

CFPI's fees will be billed directly to and paid from the client's account by the custodian of the portfolio. If the client's account is managed by a third party investment manager, the investment manager will generally require that any fees be paid on a quarterly basis, in advance, directly from the client's account with the custodian of the portfolio assets.

The fees charged by CFPI do not include fees charged by any mutual fund or manager selected by the client. The management fees for investment managers are generally disclosed in each investment manager's disclosure document (Part 2 of Form ADV or other disclosure document in lieu of Part 2) or, in the case of a mutual fund, the fund's prospectus. Clients are advised to read these materials carefully before investing.

Similarly, the fees charged by CFPI do not include any fees charged by a broker-dealer or custodian retained by the client to implement CFPI's advice or to otherwise hold the client's portfolio securities.

## **A.2. Financial Planning Fees**

CFPI does not offer fixed-fee arrangements to all clients. Generally, the more complex the financial planning engagement, the higher the likelihood that fixed fees will be negotiated, as it is difficult with respect to complex cases to discern the exact number of hours required to provide services. In such cases a fixed fee would be negotiated and then reevaluated at a later point to determine whether the fixed-fee compensation requires adjustment. Fixed fees are computed based upon an estimate of hours required to perform services. Where the time spent can be accurately estimated, then an hourly charge would apply. CFPI attempts to maintain parity with hourly and fixed charges while allowing some flexibility in estimation, taking into account case complexity and client-specific circumstances. Financial planning fees will be billed at the rate of \$250 per hour or at a fixed fee mutually agreed upon by the client and CFPI. Invoices will be mailed out on a periodic basis reflecting completed work performed. Clients seeking to terminate this service must do so in writing.

## **A.3. Additional Terms for All CFPI Client Accounts**

Asset-based fees are always subject to the investment advisory agreement between the client and CFPI. Such fees may be payable monthly or quarterly, in advance or in arrears. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar month or quarter. Adjustments for significant contributions to and distributions from a client's portfolio are prorated for the quarter in which the change occurs.

A client investment advisory agreement may be canceled at any time by the client, or by CFPI with sixty (60) days prior written notice to the client. A financial planning agreement may be terminated by either party for any reason upon receipt of written notice. Upon termination of any account, any prepaid, unearned fees will be promptly refunded and any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five (5) business days after entering into the agreement.

## **B. Client Payment of Fees**

CFPI will not take custody or possession of client funds or securities at any time except to the extent that CFPI may deduct fees directly from the client's account. CFPI will deduct advisory and custodial fees directly from the client's account provided that (1) the client provides written authorization to the qualified custodian, and (2) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account.

The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

## **C. Additional Client Fees Charged**

The fees charged by CFPI do not include fees charged by any exchange traded fund, mutual fund or separate account manager selected by the client. The management fees for investment managers are generally disclosed in each investment manager's disclosure document or, in the case of an exchange traded fund or mutual fund, in the respective fund's prospectus. Clients are

advised to read these materials carefully before investing. All fees paid for investment advisory services are separate and distinct from the fees and expenses charged by exchange traded funds, mutual funds, separate account managers, broker-dealers and custodians retained by clients. Such fees and expenses are described in each exchange traded fund and mutual fund's prospectus, each separate account manager's Form ADV and Brochure and Brochure Supplement or similar disclosure statement, and by any broker-dealer or custodian retained by the client. If a mutual fund also imposes sales charges, a client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using CFPI may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

#### **D. Prepayment of Client Fees**

CFPI does require the prepayment of its advisory fees. CFPI's fees will either be paid directly by the client or disbursed to CFPI by the qualified custodian of the client's investment accounts, subject to prior written consent of the client. The custodian will deliver directly to the client an account statement, at least quarterly, showing all investment and transaction activity for the period, including fee disbursements from the account.

A client investment advisory agreement may be canceled at any time by the client, or by CFPI with sixty (60) days prior written notice to the client. A financial planning agreement may be terminated by either party for [any reason upon receipt of written notice. Upon termination of any account, any prepaid, unearned fees will be promptly refunded and any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five (5) business days after entering into the agreement.

#### **E. External Compensation for the Sale of Securities to Clients**

Certain of CFPI's officers and employees will be registered representatives of a broker-dealer and may execute securities transactions for compensation on behalf of its advisory clients. Such securities transactions will involve variable annuities. Clients who purchase a variable annuity or other insurance product deemed to be a security will be charged either a commission or an advisory fee but not both. A good faith determination will be made at the time of sale to ensure that the fee structure and overall characteristics of the security will be in the best interests of CFPI's clients.

In addition, CFPI's principals may be engaged in the sale of other insurance products such as life and health insurance, fixed annuities and related insurance to assist with the implementation of the client's overall financial plan. Although such recommendations are designed to be in the best interests of its clients, a conflict of interest may be deemed to exist in that CFPI has a financial incentive to recommend the purchase of insurance products in the context of its financial planning services.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

CFPI does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in their best interests.

## **Item 7: Types of Clients**

CFPI offers personalized financial planning, investment advisory and portfolio monitoring services to high-net-worth individuals and related trusts, charitable entities, pension and profit sharing plans, corporations and other business entities. CFPI does not require its clients to maintain a minimum amount of assets as a condition to opening or maintaining an investment advisory relationship with the firm.

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

### **A. Methods of Analysis and Investment Strategies**

CFPI's methods of analysis may include fundamental and technical analysis; quantitative methods for optimizing client portfolios; computer based risk/return analysis; and statistical and/or computer models utilizing long-term economic criteria. In addition, CFPI reviews research material prepared by others, corporate filings, corporate rating services and a variety of financial publications.

CFPI may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to its clients.

#### **A.1. Material Risks of Investment Instruments**

The investment vehicles most commonly purchased for CFPI clients are shares of individual equity securities, exchange traded funds, registered open-end mutual funds and fixed income securities including municipal securities. Many of these investments can be purchased directly by clients without utilizing the services of an advisor. Registered investment companies charge their own management fees and expenses; these fees and expenses are detailed in each respective mutual fund's prospectus and are in addition to any fees charged by CFPI. CFPI may invest in the following types of securities:

- Equity securities
- Mutual fund securities
- Exchange-traded funds
- Corporate debt securities, commercial paper, and certificates of deposit
- U.S. government securities
- Municipal securities
- Private placements

##### **A.1.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

##### **A.1.b. Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual

company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

#### **A.1.c. Exchange-Traded Funds (“ETFs”)**

ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> (“QQQs<sup>SM</sup>”) iShares<sup>®</sup> and VIPERs<sup>®</sup>. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market.

The funds, as a shareholder of another investment company, will bear their pro-rata portion of the other investment company’s advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employ the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF’s underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

#### **A.1.d. Corporate Debt, Commercial Paper and Certificates of Deposit**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company’s ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S or foreign) and currency risk. If bonds have maturities of 10 years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds also have liquidity and currency risk.

Commercial paper and certificates of deposit are generally considered safe instruments, although they are subject to the level of general interest rates, the credit quality of the issuing bank and the length of maturity. With respect to certificates of deposit, depending on the length of maturity there can be pre-payment penalties if the client needs to convert the certificate of deposit to cash prior to maturity.



#### **A.1.e. U.S. Government Securities**

U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

#### **A.1.f. Municipal Securities**

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

#### **A.1.g. Private Placements**

Private placements carry significant risk in that companies using the private placement market conduct securities offerings that are exempt from registration under the federal securities laws, which means that investors do not have access to public information and such investors are not provided with the same amount of information that they would receive if the securities offering was a public offering. Moreover, many companies using private placements do so to raise equity capital in the start-up phase of their business, or require additional capital to complete another phase in their growth objective. In addition, the securities issued in connection with private placements are restricted securities, which means that they are not traded on a secondary market, such as a stock exchange, and they are thus illiquid and cannot be readily converted to cash.

### **B. Investment Strategy and Method of Analysis Material Risks**

#### **B.1. Margin Leverage**

Although CFPI, as a general business practice, does not utilize leverage, there may be instances in which exchange-traded funds, other separate account managers and, in very limited circumstances, CFPI will utilize leverage. In this regard please review the following:

The use of margin leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment.

The use of margin leverage entails borrowing, which results in additional interest costs to the investor.

Broker-dealers who carry customer accounts require a minimum equity requirement when clients utilize margin leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to

satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of margin leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

### **B.2. Short-Term Trading**

Although CFPI, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-frequency trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

### **B.3. Short Selling**

CFPI generally does not engage in short selling but reserves the right to do so in the exercise of its sole judgment. Short selling involves the sale of a security that is borrowed rather than owned. When a short sale is effected, the investor is expecting the price of the security to decline in value so that a purchase or closeout of the short sale can be effected at a significantly lower price. The primary risks of effecting short sales is the availability to borrow the stock, the unlimited potential for loss, and the requirement to fund any difference between the short credit balance and the market value of the security.

### **B.3. Option Strategies**

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. Options entail greater risk but allow an investor to have market exposure to a particular security or group of securities without the capital commitment required to purchase the underlying security or groups of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

CFPI as part of its investment strategy may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases

- Option spreading
- Short call option strategy
- Short put option strategy

#### **B.3.a. Covered Call Writing**

Covered call writing is the sale of in-, at-, or out-of-the money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

#### **B.3.b. Long Call Option Purchases**

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within 9 months of issuance), and as a result can expose the investor to significant loss.

#### **B.3.c. Long Put Option Purchases**

Long put option purchases allow the option holder to sell or "put" the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, then value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within 9 months of issuance), and as a result can expose the investor to significant loss.

#### **B.3.d. Option Spreading**

Option spreading usually involves the purchase of a call option and the sale of a call option at a higher contract strike price, both having the same expiration month. The purpose of this type of transaction is to allow the holder to be exposed to the general market characteristics of a security without the outlay of capital to own the security, and to offset the cost by selling the call option with a higher contract strike price. In this type of transaction, the spread holder "locks in" a maximum profit defined as the difference in contract prices reduced by the net cost of implementing the spread. For example, let's say that a client purchased 10 call contracts of security at a contract price of \$10 for \$2 per contract, and sold 10 call contracts of security at a contract price of \$15 for \$1 per contract. The client's net cost is \$1 per contract, or  $1 \times 10 \text{ contracts} \times 100 \text{ shares per contract}$  or \$1,000. The client expects the price to rise to \$20; however, the price actually declines to \$5. What happens? Both the long and short sides of the trade expire worthless and the client loses his investment of \$1,000. What happens if the price of the underlying security rises to \$20? In this case the owner of the option spread locks in a maximum profit of  $(\$15 - \$10 - \$1) \times 10 \text{ contracts} \times 100 \text{ shares per contract}$ , or \$4,000. There are many variations of option spreading strategies; please contact the Options Clearing

Corporation for a current Options Risk Disclosure Statement that discusses each of these strategies.

#### **B.3.e. Short Call Option Strategy**

Short call option strategy is highly speculative and has theoretical potential for unlimited loss. The seller (writer) of the call option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain below the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security increase above the contract strike price, then the option writer can either purchase the call option at a loss, or through a process of exercise and assignment, be forced to sell the stock at the contract strike price. If this happens, the option writer will have to go in the open market and buy an equivalent amount of stock to cover the sale at prices that can be materially higher than the amount received from the sale.

#### **B.3.f. Short Put Option Strategy**

Short put option strategy is highly speculative and has theoretical potential for significant loss. The seller (writer) of the put option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain above the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security decrease below the contract strike price, the option writer can either purchase the put option at a loss, or through a process of exercise and assignment, be forced to buy the stock at the contract strike price. If this happens, the option writer will be purchasing the underlying security at a price potentially well above its then-current market value, exposing the investor to potential loss.

### **C. Security-Specific Material Risks**

There is an inherent risk for clients who have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.

## **Item 9: Disciplinary Information**

Mr. Wolf has disclosure items relating to customer complaints and a termination for cause, all of which are publicly available. You may access such information by visiting [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and following the search instructions.

### **A. Criminal or Civil Actions**

There is nothing to report on this item.

### **B. Administrative Enforcement Proceedings**

There is nothing to report on this item.

### **C. Self-Regulatory Organization Enforcement Proceedings**

There is nothing to report on this item.

## **Item 10: Other Financial Industry Activities and Affiliations**

### **A. Broker-Dealer or Representative Registration**

Mr. Wolf is a registered representative of Purshe, Kaplan, and Sterling, a FINRA-registered broker-dealer and member of SIPC, and may execute securities transactions for compensation on behalf of its advisory clients. Such securities transactions may involve variable annuities. Clients who purchase a variable annuity product, which is deemed to be a security, will be charged either a commission or an advisory fee but not both. For a variable annuity, an advisory fee may be assessed on the mutual fund sub-account of the variable annuity but not on the annuity contract itself. A good faith determination will be made at the time of sale to ensure that the fee structure and overall characteristics of the security will be in the best interests of CFPI's clients.

In addition, CFPI's principals may be engaged in the sale of other insurance products such as life and health insurance, fixed annuities and related insurance to assist with the implementation of the client's overall financial plan. Although such recommendations are designed to be in the best interests of CFPI's clients, a conflict of interest may be deemed to exist in that CFPI has a financial incentive to recommend the purchase of insurance products in the context of its financial planning services.

### **B. Futures or Commodity Registration**

Neither CFPI nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator, or commodity trading advisor and do not have an application to register pending.

### **C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

Other than as described in Item 10.A above, CFPI does not have any material relationships that create a conflict of interest.

### **D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest**

Other than as described in Item 10.A above, CFPI does not recommend investment products in which it receives any form of compensation from the separate account manager or investment product sponsor.

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

### A. Code of Ethics Description

CFPI has policies and procedures in place to ensure that the interests of its clients are given preference to those of CFPI, its affiliates and its associated persons. For example, there are

- restrictions as to when CFPI and its associated persons may purchase or sell securities recommended by CFPI;
- policies in place to prevent the misappropriation of material non-public information;
- policies and procedures to manage conflicts of interest; and
- such other policies and procedures reasonably designed to comply with federal and state securities laws.

In general, CFPI employees may offer and accept gifts having no more than a \$100 value without obtaining supervisory approval. CFPI prohibits its employees from accepting gifts, entertainment and other things of material value that might create a conflict of interest or give the appearance of a conflict of interest. Additionally, CFPI employees may not offer gifts, entertainment or other things of material value that could be viewed as attempting to unduly influence the decision-making or objectivity of any client or client's service provider. Gifts valued at more than \$100 are required to be reported to the Chief Compliance Officer.

To avoid any potential conflicts of interest involving personal trades, CFPI has adopted a Code of Ethics ("Code"), which includes personal securities transactions and insider trading policies and procedures. CFPI's Code requires, among other things, that employees

- act with integrity, competence, diligence, respect and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets;
- place the integrity of the investment profession, the interests of clients and the interests of CFPI above one's own personal interests;
- adhere to the fundamental standard that they should not take inappropriate advantage of their position;
- avoid any actual or potential conflict of interest;
- conduct all personal securities transactions in a manner consistent with this policy;
- use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions and engaging in other professional activities;
- practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession;
- promote the integrity of, and uphold the rules governing, capital markets;
- maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals; and

- comply with applicable provisions of the federal securities laws.

CFPI's Code also requires employees to:

- pre-clear certain personal securities transactions;
- report personal securities transactions on at least a quarterly basis; and
- provide CFPI with a detailed summary of certain holdings (both initially upon commencement of employment and quarterly and annually thereafter) over which such employees have a direct or indirect beneficial interest.

A copy of CFPI's Code of Ethics will be provided to any client or prospective client upon request.

## **B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

CFPI does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). In addition, CFPI does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

## **C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

CFPI, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it, may purchase the same securities as are purchased for clients.

## **D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

CFPI, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it, may effect securities transactions for their own accounts which differ from those recommended or effected for other CFPI clients. CFPI will make a reasonable attempt to trade securities in client accounts prior to trading the securities in its affiliate, corporate, employee or employee related accounts. It is the policy of CFPI to place the client's interests above those of CFPI and its employees.



## Item 12: Brokerage Practices

### A. Factors Used to Select Broker-Dealers for Client Transactions

CFPI may recommend/require that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although CFPI may recommend/require that clients establish accounts at Schwab, it is the client's decision to custody assets with Schwab. CFPI is independently owned and operated and not affiliated with Schwab.

For CFPI client accounts maintained in its custody, Schwab generally does not charge separately for custody services, but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

In certain instances and subject to approval by CFPI, CFPI will recommend to clients certain broker-dealers and/or custodians based on the needs of the individual client, and taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by CFPI shall be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities; as a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

#### A.1. Institutional Trading and Custody Services

Schwab provides CFPI with access to its institutional trading and custody services that are typically not available to Schwab retail investors. These services are generally available to independent investment advisors on an unsolicited basis at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets are maintained in accounts at Schwab Advisor Services. These services are not contingent upon CFPI committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's brokerage services include the execution of securities transactions, custody, 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.

#### A.2. Other Products and Services

Schwab Advisor Services also makes available to CFPI other products and services that benefit CFPI but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of CFPI's accounts, including accounts not maintained at Schwab. Schwab also makes available to CFPI managing and administering software and other technology that

- provide access to client account data (such as trade confirmations and account statements)
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- provide research, pricing and other market data
- facilitate payment of CFPI's fees from its clients' accounts
- assist with back-office functions, recordkeeping and client reporting

Schwab also offers other services intended to help CFPI manage and further develop its business enterprise. These services may include

- compliance, legal and business consulting
- publications and conferences on practice management and business succession
- access to employee benefits providers, human capital consultants and insurance providers

Schwab may also provide other benefits such as educational events or occasional business entertainment of CFPI personnel. In evaluating whether to recommend or require that clients custody their assets at Schwab, CFPI may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers, and not solely the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

### **A.3. Independent Third Parties**

Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to CFPI. Schwab may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third party providing these services to CFPI.

## **B. Aggregating Securities Transactions for Client Accounts**

### **B.1. Best Execution**

CFPI may recommend/require that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, member SIPC, to maintain custody of clients and assets and to effect trades for their accounts. Such accounts will be prime broker eligible so that if and when the need arises to effect securities transactions at broker-dealers ("executing brokers") other than with the client's current custodian, such custodian will accept delivery or deliver the applicable security from/to the executing broker. Schwab charges a "trade away" fee, which is charged against the client account for each trade away occurrence. Other custodians have their own policies concerning prime broker accounts and trade away fees. Clients will consult their current custodian for their policies and fees.

CFPI, pursuant to the terms of its investment advisory agreement with clients, does not have discretionary authority.

## **B.2. Directed Brokerage**

### **B.2.a. CFPI Recommendations**

CFPI typically recommends Schwab Advisor Services as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

### **B.2.b. Client-Directed Brokerage**

Occasionally a client may direct CFPI to use a particular broker-dealer to execute portfolio transactions for its account or request that certain types of securities not be purchased for its account. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage CFPI derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. CFPI loses the ability to aggregate trades with other CFPI advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

## **B.3. Security Allocation**

Since CFPI may be managing accounts with similar investment objectives, CFPI may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by CFPI in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts. Such aggregate orders may include transactions for accounts for employee benefit plans and private investment vehicles, such as limited partnerships or limited liability companies, in which CFPI, its affiliates, principals or employees are among the investors.

CFPI's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. CFPI will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

CFPI's advice to certain clients and entities and the action of CFPI for those and other clients are frequently premised not only on the merits of a particular investment, but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of CFPI with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice or actions of CFPI to or on behalf of other clients.

## **B.4. Order Aggregation**

CFPI, pursuant to the terms of its investment advisory agreement with clients, does not have discretionary authority. As a result, CFPI does not aggregate orders as its professionals must speak to each client to obtain authorization to effect any transactions.

### **B.5. Allocation of Trades**

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

CFPI acts in accordance with its duty to seek best price and execution and will not continue any arrangements if CFPI determines that such arrangements are no longer in the best interest of its clients.

### **B.6. Soft Dollar Arrangements**

CFPI does not utilize soft dollar arrangements. CFPI does not direct brokerage transactions to executing brokers for research and brokerage services.

### **B.7. Brokerage for Client Referrals**

CFPI does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

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## Item 13: Review of Accounts

### A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved

Financial planning client accounts will be reviewed in accordance with the terms set forth in their investment advisory agreement. In the case of investment services rendered to high-net-worth/affluent individuals, monitoring of clients' accounts is conducted on a regular basis. Meetings with clients are conducted on an as-needed basis, but not less than once per year; such meetings may be conducted in person or by telephone. Reviews are intended to assess the effect on the client, if any, of significant changes in the national or global economy, in the market or in the legal environment (e.g., with respect to federal and state tax laws), and to revisit the client's goals and circumstances.

In addition, a review is conducted of the client's quarterly performance report and the client's investment policy statement including, and in particular, the details concerning the client's investment objectives, goals, tolerance for risk, personal and financial circumstances, and investment constraints and/or limitations imposed by such client. Any changes in the client's goals and circumstances or investment constraints or limitations are noted for any necessary adjustments to the client's portfolio and for future advisory services rendered to the client.

Any of the foregoing factors may lead to changes in the client's asset allocation target, funds or managers, or securities recommended to the client.

### B. Review of Client Accounts on Non-Periodic Basis

CFPI may perform ad hoc reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how CFPI formulates investment advice.

### C. Content of Client-Provided Reports and Frequency

Reports of changes in the performance of a client's portfolio are provided to the client by CFPI on a quarterly basis, unless otherwise agreed upon by the client and CFPI. Clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances and portfolio holdings in the client's account.

Clients that determine to implement CFPI's advice regarding income generation techniques will receive monthly statements from the executing broker-dealer and/or custodian selected by the client in connection with such strategy. CFPI will review client custodian statements with such clients on a quarterly basis or more often as necessary. The review will assess whether to continue or to discontinue the strategy as well as possible outcomes that could affect the client's tax and estate situation.

## **Item 14: Client Referrals and Other Compensation**

### **A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest**

There is nothing to report on this item.

### **B. Advisory Firm Payments for Client Referrals**

CFPI does not pay for client referrals and does not receive any compensation other than advisory fees charged to its clients.

## Item 15: Custody

Clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances and portfolio holdings in the client's account. CFPI urges its clients to compare the account balance(s) shown on their CFPI Quarterly Portfolio Review to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account.

## **Item 16: Investment Discretion**

CFPI does not take discretion with respect to any of its client accounts.



## **Item 17: Voting Client Securities**

CFPI does not vote proxies on behalf of clients.

## **Item 18: Financial Information**

### **A. Balance Sheet**

CFPI does not require the prepayment of fees of \$500 or more, six months or more in advance, and as such is not required to file a balance sheet.

### **B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

CFPI does not have any financial issues that would impair its ability to provide services to clients.

### **C. Bankruptcy Petitions During the Past Ten Years**

There is nothing to report on this item.

## **Item 19: Requirements for State-Registered Advisors**

### **A. Principal Executive Officers and Management Persons**

John Wolf is the President and CEO of Cornerstone Financial Planning, Inc. His education and business background are included in the Brochure Supplement provided with this Brochure.

### **B. Outside Business Activities Engaged In**

Other than what has been supplied in response to Item 10 of this Brochure, there is no additional information to disclose. CFPI provides income tax preparation for clients. CFPI charges for this service.

### **C. Performance-Based Fee Description**

CFPI does not charge performance-based fees. See Item 6 of this Brochure.

### **D. Disclosure of Material Facts Related to Arbitration or Disciplinary Actions Involving Management Persons**

Mr. Wolf has disclosure items relating to customer complaints and a termination for cause, all of which are publicly available. You may access such information by visiting [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and following the search instructions.

### **E. Material Relationships Maintained by this Advisory Business or Management Persons with Issuers of Securities**

There is nothing to report for this item.

## Item 20: Privacy Policy

### FACTS

### What Does Cornerstone Financial Planning, Inc., Do With Your Personal Information?

#### The Law

Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share and protect your personal information. Please read this notice carefully to understand what we do.

#### Our Policy

The types of personal information we collect and share depend on the product or service you have with us. This information can include:

- Income
- Employment and residential information
- Social security number
- Cash balance
- Security balances
- Transaction detail history
- Investment objectives, goals, and risk tolerance

When you close your account, we continue to share information about you according to our policies.

#### Your Rights

All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons Cornerstone Financial Planning chooses to share; and whether you can limit this sharing.

**Please Note:** If you are a *new* customer, we do not share your personal information other than to provide services or as otherwise legally required. When you are *no longer* our customer, this policy continues to apply to you.

### Definitions

Everyday Business Purposes	The actions necessary by financial companies to run their business and manage customer accounts, such as providing investment advisory and financial planning advice, processing securities transactions, and otherwise providing financial services to you.
Affiliates	Cornerstone Financial Planning does not have affiliate entities.
Non-Affiliates	Cornerstone Financial Planning does not share information with non-affiliates for marketing purposes.
Joint Marketing	Cornerstone Financial Planning does not engage in joint marketing with non-affiliates.

Reasons we can share your personal information	Does Cornerstone Financial Planning share?	Can you limit this sharing?
For our everyday business purposes—such as to provide advice, process your transactions, and maintain your account(s)	Yes	No
For our marketing purposes—to offer our products and services to you	No	We do not share
For joint marketing with other financial companies	No	We do not share
For our affiliates' everyday business purposes—information about your transactions and experiences	No	We do not share
For our affiliates' everyday business purposes—information about your creditworthiness	No	We do not share
For our affiliates to market to you	No	We do not share
For non-affiliates to market to you	No	We do not share
<b>Contact Us</b>	Call 920-993-1526	

Sharing Practices	
How often does Cornerstone Financial Planning notify me about their practices?	We must notify you about our sharing practices when you open an account and each year while you are a customer.
How does Cornerstone Financial Planning protect my personal information?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.
How does Cornerstone Financial Planning collect my personal information?	<p>We collect your personal information, for example, when you</p> <ul style="list-style-type: none"> <li>• establish an investment advisory relationship</li> <li>• contract for financial planning services</li> <li>• open an account or deposit money with custodians</li> <li>• purchase or sell securities with executing broker-dealers</li> </ul> <p>We also collect your personal information from others, such as custodians, broker-dealers, or other companies.</p>
Why can't I limit all sharing?	<p>Federal law gives you the right to limit sharing only for</p> <ul style="list-style-type: none"> <li>• affiliates' everyday business purposes—information about your creditworthiness</li> <li>• affiliates to market to you</li> <li>• non-affiliates to market to you</li> </ul> <p>State laws and individual companies may give you additional rights to limit sharing.</p>