

Kral Financial Advisors, LLC

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This Brochure provides you information about the qualifications and business practices of **Kral Financial Advisors, LLC** (referred to in this Brochure as “us,” “we,” “our” or “our firm”). If you have any questions about the contents of this Brochure, please contact us at 734.354.9720 or Kevin.Kral@kralfinancial.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

We are a registered investment adviser. Registration of an adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser.

Additional information about us also is available on the SEC’s website at www.adviserinfo.sec.gov.

SUMMARY OF MATERIAL CHANGES

The purpose of this section is to summarize material changes we have made to our brochure since the date of its last version, which was March 18, 2013.

We updated the “**Custody**” section to disclose that we now have custody of certain client accounts where we or Kevin Kral serve as a trustee and for which we provide investment management services. We also describe how we comply with the custody rule under the Investment Advisers Act of 1940 by maintaining all client assets at qualified custodians and engaging an independent public accounting firm to audit annually all accounts for which we have custody.

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ADVISORY BUSINESS

About Us

Kral Financial Advisors, LLC is a fee-only Registered Investment Advisor that provides objective financial planning and investment management services to our clients. The term “fee-only” means we do not accept commissions for the implementation of portfolio investments. We are compensated in the form of fees paid directly by our clients. Kevin T. Kral established our firm in January 2006. Mr. Kral owns 100% of the firm.

Our Advisory Services

Our firm is committed to help you build, manage, and preserve your wealth and to provide assistance to help you achieve your various financial goals. We may offer an initial complimentary consultation to discuss the services we offer and to review your interests, needs and objectives. We will begin our services after you sign a Consulting Agreement.

We provide advice through three types of services: **Investment Management, Financial Planning and Consultation Services.**

Investment Management Services – Our services begin when you sign the Investment Management Agreement. We assist you to develop a customized investment plan that provides you with recommendations for specific investment strategies that are consistent with your needs, objectives, goals, time horizon, and risk tolerance. We will monitor your investments as agreed upon under the Investment Management Agreement. These Services will continue until terminated by either party.

As part of our Investment Management Services, we will conduct an initial interview to determine your financial needs and objectives. We will gather information about your past financial history, present financial condition, and your investment goals. We provide planning for short-term goals (such as college funding) or for long-term goals (such as retirement planning), or other segments of an investment plan that you desire. The information we gather varies based on your individual needs and objectives. As a result, we require your active participation while we formulate advice and recommendations. We do not verify the accuracy of the data you provide. We also assume that the information you provide is reliable and current. We may request the names and relationships of other advisors (*e.g.*, attorney, accountant, banker, etc.)

After we evaluate your information, we may prepare an investment policy statement or other similar document. This investment policy statement may include a target asset allocation (spreading investment between a mix of stock investments and bond investments). We will consider various investment programs/strategies to assist you to meet your stated investment objectives. We will make note of any investment restrictions you have in our prepared document. Once we agree upon an investment policy, we will prepare recommendations for investments or

other segments of an investment plan that you may need. We will tailor our services to your needs and the Investment Management Agreement.

Although we primarily recommend using no-load mutual funds and exchange traded funds (ETFs), our investment recommendations may also include short-term instruments (i.e., T-Bills), bonds, or other investment vehicles. Investment portfolios will be valued monthly. Market values for the investments are provided by your custodian. In the rare instance when a market value is not readily available, we will seek a valuation from an agreed upon independent third party.

Underlying investments of portfolios are reviewed frequently (perhaps daily or weekly). See “**REVIEW OF ACCOUNTS**” beginning on page 12 for more details.

It is our intention to meet with you no less an annually. Each year, we will request current financial status information from you to determine if there have been any changes to your financial situation that you have not previously reported to us. *If there has been a change in your financial situation, we urge you to contact us promptly as the new information may warrant a review or change in the investment strategies.*

You will receive monthly or quarterly account statements directly from your qualified custodians or brokerage firm in addition to transactional (buys and sells) statements. We may prepare written reports or post-meeting communications.

You will have a direct and beneficial interest in your securities, rather than an undivided interest in a pool of securities.

We may have limited discretionary authority to execute trades if you grant us the authority – see “**INVESTMENT DISCRETION**” beginning on page 13. Alternatively, you are welcome to implement investment recommendations and advice, in whole or in part, through the financial service provider of your choice.

Financial Planning Services – We offer this service at an hourly rate. We provide advice on certain financial planning components or design a comprehensive written financial plan. We provide assistance on the following topics:

- Comprehensive Financial Planning
- Financial overview and general assessment
- Goal setting
- Retirement planning
- Wealth management
- Wealth preservation
- Education funding
- Charitable giving
- Executive compensation
- Business ownership
- Business continuation planning
- Tax planning strategies
- Cash flow and budget analysis
- Risk management issues

- Traditional Estate Planning
- Advanced Estate Planning and Counsel
- Asset Protection
- Investment Analysis
- Stock Option Strategies

If you conclude that you would like to use our Investment Management Services within 30 days of the completion of Financial Planning Services, we will apply the Financial Planning fees to the Investment Management fees, providing there has not been a change in your financial position that would require a re-analysis.

Consultation Services - We can provide investment advice through general consultations offered at an hourly or fixed fee if you do not wish to use the other services. An example is the preparation of a Roth IRA conversion analysis. Consultation Services are not ongoing and thus terminate upon the delivery of services.

Assets Under Management

We manage your assets on either a discretionary or nondiscretionary basis. As of September 30, 2013, we had \$97,696,000 in client assets managed on a discretionary basis and \$25,790,000 in client assets managed on a nondiscretionary basis, for a total of \$123,486,000.

FEES AND COMPENSATION

Investment Management Fee Schedule

Our written agreement with you establishes the specific manner in which we charge fees. We determine fees based on your initial account value, as reported by your account custodians, and the value of your account at the end of each subsequent billing period. We do not charge a fee for cash and money market balances in non-retirement accounts. For the first billing period, we will prorate fees based on the day the account is opened. We calculate fees based upon the value of your account on the last trading day of the prior period. (The second quarter fee will be based upon the March 31st account values and billed in mid-April.) We round fee-calculations to the nearest dollar.

The minimum annual fee for our Investment Management Services is \$3,500. In certain circumstances, fees may be negotiated. Negotiated fees may be higher or lower than those described in this Brochure. In these circumstances, we will establish the negotiated fee schedule in your Investment Management Agreement. We reserve the right to waive fees for family members or decline services to any person or firm and for any reason.

The fees are billed quarterly in advance and based on a percentage of your assets under our management (at a rate of one-quarter of the annual percentage). Our standard fee schedule is as follows:

<u>Assets</u>	<u>Annual Percentage</u>
First \$500,000	.80%
From \$500,000 - \$1,000,000	.70%
From \$1,000,000 - \$1,500,000	.60%
From \$1,500,000 - \$2,000,000	.50%
From \$2,000,000 and up	.40%

Financial Planning and Consulting Fees

We bill fees for Financial Consulting services in arrears (after services have been rendered). Depending on the services requested, our fees will be based upon our hourly rates or a flat project fee and will be disclosed in the Financial Consultation Agreement. Currently, the hourly rate for Financial Planning and Consultation Services is \$225 per hour. Project fees will vary and are quoted based upon the complexity of the project, as well as the time and effort required. The minimum project fee for drafting a comprehensive Financial Plan is \$2,500. The total fee and services to be provided are agreed upon at the time of engagement. There are times that we may request a retainer. In such as case, the retainer will be no more than 1/2 the proposed project fee. Financial Planning Services are not ongoing and thus terminate upon the delivery of services.

Other Fees and Expenses

Our advisory fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which you may incur. Your account will separately pay for those services and will be reported to you on your custodian's account statements. You may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as: fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to our fee. We do not receive any portion of these commissions, fees, and costs.

Consequently, for any type of mutual fund investment, it is important for you to understand that you are directly and indirectly paying two levels of advisory fees and expenses: one layer of fees at the fund level and one layer of advisory fees and expenses to us. Generally speaking, most mutual funds may be purchased directly, without using our services and incurring our advisory fees.

Additionally, due to regulations under the Employee Retirement Income Security Act of 1974, 12b-1 fees are refunded to the qualified retirement accounts and not received by the custodian/broker dealer or the registered representative.

Direct Billing to Your Custodian

You may elect to be billed directly for fees or to authorize us to directly debit fees from your investment accounts. Generally, our clients authorize us under the Investment Management Agreement to directly deduct our fees from their accounts. If you provide us such authorization, the custodian's periodic statements will show each fee deduction from your account. You will receive a detailed invoice for your review at least one week before the fees are deducted from your accounts. You may withdraw this authorization for direct billing of these fees at any time by notifying us or your custodian in writing.

Termination of Services

You may terminate the Investment Management Agreement upon 30 days' written notice. If the Agreement is terminated prior to the end of the first anniversary of the Agreement, a termination fee will apply. The termination fee is meant to cover the time and expenses we incur as part of the initial financial plan / portfolio design and implementation phase of work which is time intensive and generally not recouped prior to the first anniversary. In consideration of the start-up costs associated with your account, the termination fee will be based upon the actual time spent at our standard hourly rate (\$225 per hour). We will offset the termination fee by any fees you previously paid and you will receive an itemized invoice for the time and expenses incurred.

After the first anniversary of the Agreement, if the Investment Management Agreement is terminated by either party prior to the end of a billing period, we will return a prorated amount of the fee to you based upon the termination date.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

We do not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of your assets).

TYPES OF CLIENTS

We provide financial planning and investment management services to individuals, high net worth individuals, and trusts and estates. There is no minimum asset size for our financial planning or investment management services.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Methods of Analysis

Our analysis begins with a review of your goals, time horizon, and risk tolerance through an interview process in an effort to determine a plan/portfolio that will best suit your needs. Consultations and a written questionnaire are often used to gather information. This information is used to determine what investment recommendations are appropriate. We rely on the information provided by you and do not verify the accuracy of information or reports you provide.

Our primary method of security analysis involves fundamental analysis. Fundamental analysis is a technique that attempts to determine a security's value by focusing on the economic well-being of a financial entity as opposed to only its price movements. When conducting fundamental analysis, various factors are evaluated including, but not limited to a review of a company's financial statements, determining whether the company's revenue is growing, if the company is profitable, if the company is in a strong enough position to beat its competitors in the future, and if the company is able to repay its debts. Because it can take a long time for a company's value to be reflected in the market, the risk associated with this method of analysis is that a gain is not realized until the securities market price rises to its true value.

We obtain information from a number of sources, both public and by purchase, including financial newspapers, magazines, research materials provided by third parties, corporate rating services as well as annual reports, prospectuses and filings with the SEC. We also use a number of databases available to professional investment advisors by paid subscriptions. These databases are reviewed on a regular basis. We believe these resources for information are reliable and regularly depend on these resources for making our investment decisions; however, we are not responsible for the accuracy or completeness of this information.

Investment Strategies

We use a variety of investment strategies depending on your circumstances, financial objectives and needs. Our advice may include specific or overall investment information as determined by you.

The investment strategies used to implement our investment advice are generally long-term (held at least a year) in nature and primarily utilize a "buy and hold" philosophy. Some investment strategies may include short-term purchases (held less than a year) depending upon your individual needs and objectives. All proposed investment strategies are closely evaluated, in advance, to insure they are in keeping with your stated investment policy or directives.

The concept of asset allocation or spreading investments among a number of asset classes (domestic (U.S.) stocks vs. foreign (international) stocks; large company stocks vs. small

company stocks; corporate bonds vs. government securities) is generally at the forefront of our strategies. At its heart, asset allocation seeks to achieve the right balance of diversification of assets, so as to help lessen the risk that is being taken while not sacrificing the potential rate of return for the portfolio all in an effort to reach your stated objectives. Since we believe that risk reduction is a key element to long-term investment success, asset allocation principles are a key part of our overall approach in preparing advice for you.

We primarily recommend implementing these strategies using no-load mutual funds of different kinds to promote portfolio diversification within various asset classes, such as industry sectors, domestic/international, or stocks/bonds. We may recommend periodic purchases, sales, and exchanges of those mutual fund shares within mutual fund families and between different mutual fund families when there are changes in your needs, market conditions, or economic developments.

Types of Investments and Risk of Loss

We offer advice about a variety of investment types, including mutual funds, index funds, exchange traded funds (“ETFs”), and fixed and variable annuities, each having different types and levels of risk. We will discuss these risks with you in determining the investment objectives that will guide our investment advice for your account. We will explain and answer any questions you have about these kinds of investments, which present special considerations such as the following.

Investing in securities involves risk of loss that you should be prepared to bear. Obtaining higher rates of return on investments typically entails accepting higher levels of risk. We work with you to attempt to identify the balance of risks and rewards that is appropriate and comfortable for you. However, it is still your responsibility to ask questions if you do not fully understand the risks associated with any investment or investment strategy.

Also, while we strive to render our best judgment on your behalf, many economic and market variables beyond our control can affect the performance of your investments and we cannot assure you that your investments will be profitable or assure you that no losses will occur in your investment portfolio. Past performance is one relatively important consideration with respect to any investment or investment advisor, but it is not a predictor of future performance.

Mutual Funds

We often recommend mutual funds of different kinds to promote portfolio diversification within various asset classes, such as industry sectors, domestic/international, or equities/bonds. We may recommend periodic purchases, sales, and exchanges of those mutual fund shares within mutual fund families and between different mutual fund families, when there are changes in your needs, market conditions, or economic developments.

The different kinds of mutual funds we use each have inherently different risk characteristics and should not necessarily be compared side by side. A bond fund with below-

average risk, for example, should not be compared to a stock fund with below average risk. Even though both funds have low risk for their respective categories, stock funds overall have a higher risk/return potential than bond funds.

Of all the asset classes, cash investments (i.e. money markets) offer the greatest price stability, but have yielded the lowest long-term returns. Bonds generally experience more short-term price swings, and, in turn, have generated higher long-term returns. However, stocks historically have been subject to the greatest short-term price fluctuations—and have provided the highest long-term returns.

The risks in any given mutual fund depends on the investments it holds. For example, a bond fund has interest rate risk and income risk. Bond prices are inversely related to interest rates. If interest rates go up, bond prices will go down and vice versa. Bond income is also affected by a change in interest rates. Bond income (yields) are directly related to interest rate changes. If interest rates rise, bond yields rise and vice versa. Income risk is greater for a short-term bond fund than for a long-term bond fund. However, in a long term bond fund, your principal is subject to higher principal risk.

Similarly, a sector stock fund (which invests in a single industry, such as telecommunications) is at risk that its price will decline due to developments in its industry. A stock fund that invests across many industries is more sheltered from this industry related risk. However, while diversification across industries can help reduce your risk of loss from investing in a single sector, it may limit your opportunity for a significant gain if a single industry or sector increases dramatically in value.

With respect to all classes of mutual funds and ETFs, diversification does not protect you from an overall decline the market. You should consider these risks in determining whether to use our services.

Exchange-Traded Funds and Index Funds

As with virtually all types of securities, an ETF's shares will change in value, and you could lose money by investing in an ETF. An investment in an ETF involves risk similar to those of investing in any fund of equity securities traded on an exchange. An ETF seeks investment results that correspond generally to the price and yield of an index. You should anticipate that the value of an ETF's shares would decline, more or less, in correlation with any decline in the value of its corresponding index. An ETF's return may not match the return of the index. The ETF may invest in small capitalization and mid capitalization companies. Such companies may experience greater price volatility than larger, more established companies.

Sometimes referred to as a "tracking error," expenses and other factors may affect the performance of an ETF so that the ETF's performance will not exactly match the performance of their respective underlying indexes.

DISCIPLINARY INFORMATION

As a registered investment adviser, we are required to disclose all material facts regarding any legal or disciplinary events in the last 10 years that would be material to your evaluation of our firm or the integrity of our management. We have no legal or disciplinary events to disclose.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

We are solely engaged in the delivery of financial planning and investment advisory services.

Kevin Kral, our President and Chief Compliance Officer is also the President of Kevin Kral & Associates, PLLC, which provides professional tax consultation and preparation services. These services are provided under a separate agreement and are separate and distinct from the services provided by our firm. You are welcome, but are never obligated, to utilize the tax and tax preparation services offered by Kevin Kral, & Associates, PLLC.

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

In 2005, all Investment Advisors were required to implement a written Code of Ethics. Our Code of Ethics is summarized below:

Fiduciary Responsibilities: Recognizing our fiduciary responsibilities to each and every client, Kral Financial Advisors has adopted a written Code of Ethics applicable to the firm and its personnel. It requires us to:

- Provide suitable investment advice
- Fully disclose material facts related to our advice or recommendations. Material facts are any that relate to information you need to know in order to make an informed decision about our services and investment recommendations
- Disclose any conflicts of interest
- Fulfill our duty of loyalty by acting solely in our clients' best interests
- Strive to provide long-term client satisfaction

We will provide a copy of the Code to you upon request.

We may, from time to time, purchase or sell the same securities for our own accounts that you may purchase or sell. While this may create a conflict of interest, it is generally mitigated by the fact that we primarily advise clients regarding open-end mutual funds and, to a lesser extent, exchange traded funds. In the case of open end mutual funds, shares are priced at the end of the day based upon the net asset values of the fund's investments and all transactions

receive the same price. In the case of exchange traded funds, they are highly liquid and neither our employees nor our clients trade in significant size as to affect the market price. However, to ensure fair treatment and pricing, we may aggregate our personal orders with our clients in such securities if transacted on the same day.

You may request a copy of our Code by contacting Kevin Kral at 734.354.9720

CFP® Code: Kevin Kral, holds the Certified Financial Planner™ designation (“CFP®”). The Certified Financial Planner Board of Standards Inc. (CFP Board) also has adopted its own Code of Ethics and Professional Responsibility (Code of Ethics) to provide principles and rules to all persons whom it has recognized and certified to use the CFP®, Certified Financial Planner™ and certification marks (collectively “the marks”). The CFP Board determines who is certified and thus authorized to use the marks. Implicit in the acceptance of this authorization is an obligation not only to comply with the mandates and requirements of all applicable laws and regulations but also to take responsibility to act in an ethical and professionally responsible manner in all professional services and activities. The CFP® Code of Ethics’ Principles express the profession’s recognition of its responsibilities to the public, to clients, to colleagues and to employers. They apply to all CFP Board designees and provide guidance to them in the performance of their professional services. Clients are welcome to request a copy of the CFP® Code of Ethics from our firm.

If you should have any questions relating to our Code of Ethics, you can contact Kevin Kral, the Chief Compliance Officer of Kral Financial Advisors.

Participation or Interest in Client Transactions

At times, the investment interests of our firm or related persons may coincide with the interests of your accounts. However, we primarily invests in open-ended mutual fund shares and exchange traded funds (ETFs) that are actively traded on national securities exchanges or markets where the time and size of their purchases or sales will not affect transactions for you or our other clients. Due to the relatively insignificant investments made by our firm, in relation to total market investments, these transactions would have no noticeable affect on market prices or movement (therefore, in terms of trading there is no conflict of interest.) At no time will we receive an added benefit or advantage over clients with respect to these transactions as a result of their position. Your interests and needs are at the forefront of our practice. All rules and regulations of the United States Securities and Exchange Commission’s (“SEC”) Investment Advisors Act of 1940 will be strictly enforced. We do not permit insider trading.

BROKERAGE PRACTICES

The Custodian and Brokers We Use

Your assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank. Although we do not require you to use a specified broker-dealer, we recommend that our clients use *Charles Schwab & Co., Inc. (Schwab)*, a registered broker-

dealer, member of SIPC, as the qualified custodian. We are independently owned and operated and are not affiliated with Schwab. Schwab will hold your assets in a brokerage account and buy and sell securities when we / you instruct them to. While we recommend that you use Schwab as your custodian, you will decide whether to do so and will open your account with them by entering into an account agreement directly with them. We do not open the account for you, although we may help you in doing so.

How We Select Brokers / Custodians

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

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payments, etc.)
- Breadth of available investment products (mutual funds, exchange-traded funds, stocks and bonds)
- Availability of investment research and tools to assist us in making investment decisions
- Quality of services
- Competitiveness of the price of the services (commission rates, margin interest rates, etc.) and the willingness to negotiate the prices
- Reputation, financial strength and stability
- Prior service to us and our other clients
- Availability of other products and services that benefit us, as discussed below (see *“Products and Services Available to Us From Schwab”* beginning on page 10)

Your Brokerage and Custody Costs

For our clients’ accounts that Schwab maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you a commission or other fee (transaction fee) on trades that it executes or that settle in your account. In addition, Schwab charges you a flat dollar amount as a “prime broker” or “trade away” fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited into your Schwab account. Because of this, in order to minimize

your trading costs, we have Schwab execute most trades for your account. We have determined that having Schwab execute most trades is consistent with our duty to seek “best execution” of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see “*How We Select Brokers / Custodians*” beginning on page 9).

Products and Services Available to Us From Schwab

Schwab Advisor Services (formerly called Schwab Institutional) is Schwab’s business servicing independent investment advisory firms like us. They provide us and our clients with access to institutional brokerage services – trading, custody, reporting and related services – many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients’ accounts while others help us manage and grow our business. Schwab’s support services generally are available on an unsolicited basis (we don’t request them) and at no charge to us as long as our clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab. Following is a more detailed description of Schwab’s support services:

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

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

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

Services That Generally Benefit Us Only: Schwab also offers other services intended to help us manage and further develop our business. These services include:

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

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

Kral Financial Advisors uses most of the Schwab's institutional services that are discussed above.

Our Interest in Schwab's Services

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services so long as our clients collectively keep a total of at least \$10 million of their assets in accounts at Schwab. The \$10 million minimum may give us an incentive to recommend that you maintain your account at Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based upon your interests in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interest of our clients. Our selection is primarily based upon the scope, quality and price of Schwab's services and not Schwab's services that benefit only us. We have well in excess of the \$10 million minimum in client assets under management with Schwab, and we do not believe that recommending our clients to collectively maintain at least \$10 million of those assets at Schwab in order to avoid paying a quarterly service fee to Schwab presents a material conflict of interest.

In 2006, Schwab determined, as a value-added service, that clients transferring investment management services from Plante Moran Financial Advisors (Kevin Kral's previous firm) to Kral Financial Advisors would receive reduced transaction fees if those clients continued to use Schwab as their custodian. These clients are welcome to continue to use Schwab or choose another service provider.

Aggregation of Orders

We have adopted a trade allocation policy to govern how we handle the aggregation of orders for more than one client's account. Our allocation procedures must be fair and equitable

to all clients with no particular group or client(s) being favored or disfavored over any other clients. The aggregation or “blocking” of client transactions allows us to execute transactions in a more timely, equitable, and efficient manner and seeks to reduce overall commission charged to clients.

As noted above, we primarily invest in open-end mutual funds and to a far lesser extent, exchange-traded funds (ETFs). The nature of the pricing of these securities and the related commission costs, if any, do not typically provide any advantage to clients if orders are aggregated. Therefore, we will not typically aggregate orders in these securities and will not purchase large blocks of securities to achieve price breaks and then allocate such trades back to client accounts, unless by not doing so, we would run counter to our duty to seek best execution and/or with the terms of the relevant clients’ investment advisory agreements. If your account participates in any aggregated transactions, you will receive an average share price and transaction costs will be shared equally and on a pro-rata basis.

REVIEW OF ACCOUNTS

The frequency and triggering factors for internal account reviews depend upon the services we provide to you. Kevin T. Kral, the President and Chief Compliance Officer of KFA, has responsibility for all reviews.

If we provide you with **Investment Management Services**, we review your accounts on a regular basis, not less than monthly. These reviews may be triggered by changes in your personal or financial information, significant deposits or withdrawals, market conditions, economic news or events, tax law changes, at your request, at our discretion, or according to the interval agreed upon at the time of engagement. The reviews entail analyzing your portfolios, the securities, the economic / market changes, investment results and asset allocation, etc., to help ensure the investment strategy is structured to continue to meet your stated needs and objectives.

You must contact us when a real or potential change in your financial condition occurs so we can review the portfolio along with your new information to ensure the investment strategies continue to be appropriate. Reviews may involve the entire account or just specific securities held in the account.

If we provide you with Investment Management Services, we send written, quarterly investment summaries. These quarterly summaries include portfolio position, asset allocation and investment performance information on your total portfolio as well as performance information on each security in your account. We encourage personal meetings with you at least annually. When available, reports may be delivered to you via e-mail upon request.

If we provide you with **Financial Planning or Consulting Services**, we review your account(s) at your request. The level of the review depends upon your request.

CLIENT REFERRALS AND OTHER COMPENSATION

We receive an economic benefit from Charles Schwab in the form of support products and services it makes available to us and other independent investment advisors whose clients maintain accounts at Schwab. These products and services, how they benefit us and the related conflicts of interest are described above (See “**BROKERAGE PRACTICES**” beginning on page 8.) The availability to us of Schwab’s products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

We do not engage any solicitors to market our services.

CUSTODY

We do not generally have custody of client assets except in certain cases where we or Kevin Kral are acting as a trustee to a client’s trust account where we are also providing investment management services. To comply with Rule 206(4)-2 of the Investment Advisers Act of 1940, each of the accounts for which we have custody are subject to a surprise or unannounced audit annually by Cohen Fund Audit Services, Ltd., a certified public accounting firm registered with the Public Accounting Oversight Board. For all clients, however, we use qualified custodians to hold client assets and you will receive statements from the broker-dealer, bank, or other qualified custodian that holds and maintains your investment assets at least quarterly via email or postal mailing. We urge you to carefully review such statements and compare such official custodial records to the quarterly investment summary that we may provide to you as described in the “**REVIEW OF ACCOUNTS**” beginning on page 12. Our quarterly investment summaries may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

INVESTMENT DISCRETION

We generally receive limited discretionary authority in writing from clients at the outset of an advisory relationship in the Investment Management Agreement. If you choose to do so, discretionary authority grants us the ability to determine, without obtaining your specific consent, the securities to be bought or sold for your portfolio and the amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with your stated investment objectives for the account and by considering the size of your account and your risk tolerance. Except in the case of certain trust accounts (see the “**Custody**” section immediately above), we do not have authority to withdraw funds (except for advisory fees, if authorized) or securities and will not take custody of the same.

Also, you may sign an agreement with your custodian which generally includes a limited power of attorney granting us authority to direct and implement the investment and reinvestment of your assets within the account, but not direct the assets outside of the account.

When selecting securities and determining amounts, we observe any investment policies, limitations and restrictions you provide to us in writing.

As described in more detail in the “**ADVISORY BUSINESS**” beginning on page 1, you may establish written investment guidelines and restrictions.

VOTING CLIENT SECURITIES

As a matter of firm policy and practice, we will not be responsible for responding to proxies that are solicited with respect to annual or special meetings of shareholders of securities held in your account. Proxy solicitation materials will be forwarded to you by your custodians for your response and voting.

FINANCIAL INFORMATION

As a registered investment adviser, we are required to provide you with certain financial information or disclosures about our financial condition if we have financial commitments that impair our ability to meet contractual and fiduciary commitments to you. We have not been the subject of a bankruptcy proceeding and do not have any financial commitments that would impair our ability to meet any contractual or fiduciary commitments to you.