

## **Part 2A of Form ADV: Firm Brochure.**

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**January 23, 2014**

This brochure provides information about the qualifications and business practices of Galecki Financial Management, Inc.

If you have any questions about the contents of this brochure, please contact us at 260-436-8525 or [brady@galecki.com](mailto:brady@galecki.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any State Securities authority.

Additional Information about Galecki Financial Management, Inc. also is available on the SEC's web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search site by a unique identifying number, known as a CRD number. Our firm's CRD number is 107218.

**GALECKI FINANCIAL MANAGEMENT, INC.  
IS A  
FEE-ONLY FINANCIAL PLANNING FIRM**

**WE DO NOT ACCEPT COMMISSIONS OR SELL PRODUCTS**

***GFM serves as a Fiduciary for all Clients at all times – in all of our services!***



## **Item 2 - Material Changes**

The SEC adopted "amendment to form ADV" in July, 2010. This firm brochure, dated January 28, 2013 is our new disclosure document prepared according to the SEC's new requirements and rules. As you will see, this document is a narrative that is fairly similar in content to our most recent full disclosure brochure.

After our initial filing of this brochure, this Item Two will be used in the future to provide our Clients with a summary of new and/or updated information. We will inform our Clients of the revisions based on the nature of the updated information.

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

We had no material changes in 2013.

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## **Item 4 - Advisory Business Offered by GFM**

Galecki Financial Management, Inc. (GFM) is an SEC Registered Investment Advisor with its principal place of business located in Fort Wayne, Indiana. GFM began conducting business in 1990.

Listed below are the firms principal shareholders:

<u>Owner</u>	<u>Role</u>	<u>Percent Owned</u>
Gregory M. Galecki, CFP	President	67.5%
Albert Thomas Kohout, CFP, MBA	Relationship Manager	20.0%
Brady M. McArdle, CFP	Relationship Manager	7.5%
Melanie S. Colwell, CFP	Financial Planner	5.0%

GFM offers the following advisory services to our Clients:

- 1) Initial Financial Overview (IFO) - \$775
- 2) Asset Management -Fee based upon assets under management. See schedule below.
- 3) Comprehensive Financial Planning - Annual retainer based upon quotes given after IFO.
- 4) Hourly Fees - \$150 to \$350 per hour.
- 5) Retirement Plan Services - Annual fee based upon negotiated quote and services offered.

The above services will be detailed in the following pages using the following outline for each one:

- Types of Clients
- Description
- Fees
- Termination



## **Initial Financial Overview (IFO)**

### **Types of IFO Clients:**

IFO Clients have always been modest, moderate, and high net worth individuals.

### **Description:**

The Initial Financial Overview (IFO) is packaged as a two hour review of the Client's current financial position. It is an effective introductory financial plan that provides the Client with an overview of their current financial situation and future projections based on certain assumptions. It is also a Client's opportunity to see if GFM would be compatible with the Client for a longer term relationship.

The Overview may lead in any number of different directions:

- investment allocation and planning,
- tax strategy,
- education funding and planning,
- retirement cash flow analysis,
- life insurance needs analysis,
- estate planning,
- other areas.

The direction of the Overview depends upon the concerns and needs of the Client. All Overviews are followed up with a letter reviewing the meeting and restating the recommendations.

As a practical matter, GFM realizes that 90% of the Clients coming in for an IFO are either interested in portfolio evaluations, including recommendations and diversification strategies, or a cash flow analysis.

**The IFO is a true exercise in financial planning.** It is not simply an introduction to GFM, our staff and our services. For that reason, a fee is charged for the IFO.

### **IFO Fee:**

GFM charges \$775 for the Initial Financial Overview (IFO).

From time to time, GFM will waive the IFO fee of \$775 for medical physicians, dentists, or possibly from Clients that are referred to us from existing Clients or trusted referral sources (such as accountants or attorneys that GFM has worked with before).



**GALECKI FINANCIAL MANAGEMENT, INC.**  
**ADV Part 2 A – Revised January 2014**

Any Client choosing to use our IFO service will receive a letter confirming the time and date of the IFO and any applicable fees. Any fee charged will be invoiced after the IFO is complete.

**IFO Termination:**

It is hard to terminate an IFO since it is a single event. GFM is willing to refund an IFO fee if a Client believes that they did not receive value. In 20 years, and hundreds of IFOs, we have never been asked to refund a fee. We are proud of what that means!



## **Asset Management**

### **Types of Asset Management Clients**

- Individuals (including high net worth individuals)
- Pension and Profit Sharing Plans
- Charitable Organizations
- Corporations
- Trusts and Foundations

### **Description:**

GFM provides discretionary Asset Management of Client funds based on the individual needs of the Client as discussed and determined in their IFO.

During the IFO we determine the Client's:

- objectives,
- time horizons,
- risk tolerance, and
- liquidity needs.

We may also review and discuss parts of the Client's investment history as well as family composition and background.

Taking these items into consideration, we develop a Client's personal investment policy. The personal investment policy is stated in the Client's Asset Management Agreement. We manage Client portfolios based on that Asset Management Agreement.

GFM manages Asset Management accounts on a discretionary basis. "Discretionary" means that GFM's Investment Committee determines what, when and how much of each investment to buy or sell without the approval of the Client on each individual transaction.

Account supervision is monitored by GFM's Investment Committee and communicated to each Client by an assigned staff professional.

Clients may impose reasonable restrictions on investing in certain asset classes (ie high-yield bonds).

Once the Client's portfolio has been established, we review the portfolios weekly, and if necessary, rebalance the portfolio on at least a quarterly basis. As a practical matter, we have found that most of our Clients are either making consistent contributions or withdrawals from



their managed accounts. Each contribution or withdrawal requires some sort of rebalancing. Thereby constant occurs in most of our managed portfolios.

We run a formal rebalance report on all portfolios at least quarterly. We try to avoid rebalancing too often as we attempt to minimize transaction costs for our Clients.

The investments we use in our discretionary portfolios are not limited to any specific product or asset class and will generally include the following types of investments:

- Exchange traded stocks(common stock),
- Foreign issues,
- Corporate debt (bonds),
- Certificates of Deposit,
- Municipal bonds,
- United States Government bonds,
- Option contracts on some securities/stocks,
- Mutual Funds, Exchange Traded Funds, Investment Pools, and/or Structured Notes holding bundles of any of the above securities/stocks or bonds.

We do not place Client's money in variable life policies or variable annuities. If however, a Client comes to GFM after already being sold such assets, we will manage the internal cash values of those policies/contracts by directing which of the internal accounts/funds to hold.

Because some type of investments and asset classes involve certain additional degrees of risk, they will only be implemented when consistent with the Client's stated investment objective, tolerance for risk, liquidity, and overall portfolio diversification.

GFM has a minimum portfolio of \$500,000 of aggregated household assets under management for our Asset Management service. This size may be reduced under certain circumstances. GFM will group related Client accounts in a household for the purposes of achieving the minimum account size and determining the annualized fee. In other words, we will group together assets in a 401(k), an IRA, a brokerage account, college accounts and other accounts within a household for our minimum \$500,000 portfolio.

GFM's minimum in the past started at \$100,000 and grew to its current \$500,000. There are currently Clients who have been grandfathered in under our previous schedule with less than \$500,000. GFM continues to work with these Clients.

GFM may also bring on new Clients with less than \$500,000 under management if they are expected to eventually have more than \$500,000 invested in our Asset Management service.





### **Asset Management Fees**

GFM's Asset Management fees are billed on a quarterly basis. The fees are based upon total assets under management, calculated as of the first day of every billing quarter (example: January 1, April 1, July 1, and October 1).

The fee schedule is as follows;

Fee	Assets Under Management
1.00%	on first \$2,000,000
\$ 20,000 + 0.75%	on amount above \$2,000,000
\$ 35,000 + 0.40%	on amount above \$4,000,000
\$ 59,000 + 0.25%	on amount above \$10,000,000

The Asset Management fee will be prorated for the initial quarter assuming a 30-day month. The minimum quarterly fee will be \$1,250 for every full or partial quarter. The minimum fee may be waived by GFM in certain cases. Existing Asset Management clients may be on a different fee schedule with a lower minimum quarterly fee. These clients have been grandfathered in under their old agreements.

The Asset Management fee will be withdrawn from the Client's accounts through a signed authorization given to GFM by the Client.

The fee for the Client's Asset Management service is billed to their account in the middle of each quarter. In special circumstances, we bill a Client's fees directly to them or their corporation (i.e. their 401(k)). Therefore, GFM's fees are billed in arrears.

Charitable and non-profit accounts are managed at 0.40% per year. This minimum account size is \$200,000. For charitable and non-profit accounts with less than \$200,000, GFM charges the normal Asset Management fee schedule.

All Mutual Funds have a management fee that is "hidden". It is hidden in the sense that the Client never sees it. The Mutual Fund Company withdraws their management fee before reporting the total return to the Client. This management fee is how the Mutual Fund Company earns their income/revenue.

This is an additional level of fees that the Client pays in addition to GFM's Asset Management fee. GFM does not use any Mutual Funds that charge a sales charge to our Clients. It is interesting to note that Mutual Fund companies do not receive any of the sales charges or



commissions that they might charge. These sales charges are typically paid out to the brokers as commissions.

**GFM does not receive any commissions from any source.**

GFM does not take custody of a Client's assets; a custodian is used (i.e. Charles Schwab or TD Ameritrade). A custodian charges transaction fees, or otherwise takes part of the Mutual Funds published management fee (what are known as "12(b)1" fees) to serve as custodian. Any transaction fee that the Client pays represents an additional layer of overall management fees.

**GFM does not receive any part of the transaction fee.**

The transaction fees are reported to the Client on the custodian's confirmation statement.

The rate of return that GFM reports to its Clients is primarily after all GFM management fees, custodian transaction fees and the Mutual Funds hidden management fees. Our reports are truly "Net" of all fees taken from the Client accounts.

GFM is very sensitive to Mutual Funds management fees and the custodian transaction fees. GFM has negotiated large discounts with Charles Schwab and TD Ameritrade from their normal retail transaction charges. GFM's quarterly reports are net of all of these fees and expenses. GFM does not share in any of the Mutual Fund management fees or the custodian's transaction fees.

GFM never uses a Mutual Fund that utilizes a sales charge or commission to our Clients.

### **Termination of Asset Management**

Upon termination of our Asset Management service, any prepaid, unearned fee will be promptly refunded. In calculating a Client's reimbursement of fees, we will pro-rate the reimbursement according to the number of days remaining in a billing period.

Clients and/or GFM may terminate the Asset Management service at any time.



## **Comprehensive Financial Planning**

### **Types of Comprehensive Financial Planning Clients**

GFM only prepares Comprehensive Financial Plans for Individuals (including high net worth individuals).

#### **Description:**

Comprehensive Financial Planning is a holistic evaluation of a Client's current and future financial state, determined by using currently known variables to predict future cash flows and net worth projections.

Client's utilizing this service receive various written reports which provide the Client with a detailed Comprehensive Financial Plan, designed to communicate the Client's current and future projected path.

#### **Cash Flow Based:**

GFM's Comprehensive Financial Plans are cash flow based. This is an important distinction over other Financial Planners that use modular planning.

Modular planning tries to answer questions for Clients in individual areas of Financial Planning, without taking into consideration the Client's holistic picture. In other words, a modular planning process will tell a Client how much to save for retirement on a monthly basis. It will not take into consideration a Client's other goals such as life insurance or tax planning.

Modular planning will tell a Client how much life insurance they need using general rules of thumb (i.e. 3 times salary plus liabilities) without taking into consideration education planning or current cash flow needs.

Modular planning is a lazy method and is usually used simply to sell financial products.

Beware of "financial plans" that are really financial product delivery systems in disguise.

The cash flow planning process that GFM uses first analyzes a Client's income source(s). We then subtract your living expenses and other future goals from this income.

Next, we subtract your projected taxes to be paid in each particular year.

After the initial cash flow analysis is complete, we can tell a Client what the projected net worth and investment balance is at any time in the future. The projections are only as accurate as their



variables and assumptions that are made. For this reason, we begin tweaking and correcting the living expenses after the initial cash flow analysis is complete. These are the variables that the Client has the most control over -- their discretionary spending.

Through the cash flow planning process, we uncover areas of weakness (deficits) and areas of strength (surpluses).

A portion of this surplus is assumed to be reinvested in a Client's portfolio. A deficit is assumed to be taken from the Client's investment pool to cover necessary living expenses.

From the cash flow process, a Client's net worth grows, stagnates, or is depleted. It does not make any sense to GFM for a Client to ever engage a Financial Planner on a modular basis. We live our lives holistically, and our goals are interdependent. In our opinion, our financial lives are best analyzed from a cash flow perspective.

A well designed and communicated Comprehensive Financial Plan based on cash flow analysis - makes its own logical recommendations. A good cash flow analysis reveals surpluses and deficits, and the amount of each. The surpluses are then logically allocated towards the deficits.

If there are no surpluses, an experienced and objective Financial Planner will help the Client to determine which of their important plan variables can be altered.

GFM is proud to create and communicate well designed Comprehensive Financial Plans that are based on cash flow and designed to fit your specific needs and goals.

As a practical matter, the next part of the Comprehensive Financial Plan cannot be completed until the cash flow analysis is revised to the Client's satisfaction.

We analyze employee benefits that are available to the Client. We recommend which benefits to use. We may also recommend new qualified plans (profit sharing, 401(k), pension plans) to our business owners. We help a Client project their future investment net worth and investment balances through the cash flow process.

Once the cash flow analysis has been completed, tweaked and revised, we can then begin to analyze their need for life insurance and disability insurance. We do this by assuming the Client or spouse immediately passes away or becomes disabled. We then look to see how their net worth and investment balance looks in the future.

After the life insurance and the disability analyses are completed, additional analyses can be done for education planning and/or estate planning. The beauty of the cash flow based financial plan is that the cash flow calculations, once revised and accepted, become the foundation and basis for all other parts of the Client's holistic Comprehensive Financial Plan.



We review existing policies to ensure proper coverage for life, health, disability, long-term care, home, and automobile. By using the cash flow method of analysis, we can project future surpluses or deficits. If a deficit exists, we will recommend that the Client consider additional insurance where appropriate.

In reality, by the time most Clients seek GFM (and are ready for a FEE-ONLY relationship), they are past the point in their financial lives of buying insurance. We are normally analyzing how to unwind policies that were previously purchased yet are no longer necessary.

During our Estate Planning review, we assist the Client in assessing and developing long-term strategies. These strategies include living trusts, wills, estate tax projections, power of attorney, asset protection plan, nursing home and elder law concerns.

In general, the Comprehensive Financial Plan can address and take into consideration any or all of the following areas:

- Family structure
- Income Sources
- Living Expenses
- Assets
- Portfolio Diversification
- 401(k) and Pension Choices
- Education and College Funding
- Incentive Stock Options
- Employee Benefits
- Liabilities
- Life Insurance Policies
- Disability Insurance Policies
- Property and casualty Insurance Coverage
- Health Insurance
- Medicare Choices
- Tax Returns and Tax Planning
- Estate Documents
- Other financial goals.

Altering any one of the above variables (assumptions) changes and affects all of the others. This is clearly illustrated in a Comprehensive Financial Plan.

The Comprehensive Financial Planning service is designed to be "built" over a two year period of time. The Client may choose to discontinue the service at any time, even if the Client remains an Asset Management Client. It is our experience that the initial cash flow analysis provided to the Client in the Comprehensive Financial Plan is indeed a work in progress. From the initial analyses, the Client will often revise their income, number of years working, living expenses or future financial goals.

If requested by a Client, GFM may recommend the services of other professionals for implementation purposes (i.e. attorneys or accountants). The Client is under no obligation to engage the services of the recommended professionals. The Client retains absolute control over all such Comprehensive Financial Planning implementation decisions and is free to accept or reject any recommendation made by GFM.



The Comprehensive Financial Plan service does not include actively managing Client portfolios. As part of the Comprehensive Financial Plan, we will make recommendations regarding how a Client might diversify their portfolio among asset classes with the intent of reducing risk and capturing the return of major asset classes. The Comprehensive Financial Plan service does not include recommending specific investments; that is done separately through GFM's Asset Management service.

### **Comprehensive Financial Planning Fee**

GFM offers Comprehensive Financial Planning services to Clients, if appropriate, after the Initial Financial Overview (IFO) has been concluded. The data gathered during the IFO gives GFM the information needed to put together a Comprehensive Financial Planning quote.

The Comprehensive Financial Planning quote is based upon an in house (proprietary) spreadsheet that estimates the number of hours a Client's particular financial situation will require on an annual basis. The estimated hours are then multiplied by \$150; this is the average billing rate of the employees that will be involved in the Financial Plan development. GFM's Comprehensive Financial Planning annual retainer generally ranges from \$5,000 to \$10,000.

All fees are agreed upon prior to entering into a Financial Planning Agreement with any Client.

The Financial Planning Agreement sets forth the terms and conditions of the engagement, describing the scope of the services to be provided, and a portion of the fee that is due from the Client prior to GFM commencing services.

This Comprehensive Financial Planning quote is an annual retainer.

It is expected that the GFM staff will meet with a Comprehensive Financial Planning Client four times each year in meetings that might last two to three hours. The Client may contact any of the GFM staff at any time between meetings to ask questions, update information, or otherwise seek guidance. There is no extra cost for calls, contacts, e-mails, or additional meetings during the year; the annual retainer puts GFM staff on call as the Client's needs arise.

**The fee for the Comprehensive Financial Plan may be offset by Asset Management fees. In many cases, the Asset Management fee being earned by GFM is enough to waive the entire Comprehensive Financial Planning fee. This is also clearly explained in the Comprehensive Financial Planning quote.**

The Client will be billed for Comprehensive Financial Planning services in advance. GFM charges the first six months (half of the first year's retainer) before the Comprehensive Financial Planning work begins.



At the beginning of the third quarter, GFM charges 1/4 of the Comprehensive Financial Planning annual retainer.

GFM then charges 1/4 the Comprehensive Financial Planning fee at the beginning of each subsequent quarter.

### **Comprehensive Financial Plan Termination:**

The Comprehensive Financial Planning fee is charged in advance. Most of the Financial Planning work each quarter is done at the very beginning of the quarter.

Any part of the Comprehensive Financial Planning fee that has been paid is not refundable to a Client upon termination of the Financial Planning Agreement. Again, this is due to the fact that most financial planning work is done at the beginning of the quarter and in advance of any financial planning meeting.

As a matter of fact, at least 75% of the entire financial plan is done in the first three months of a financial planning engagement.

We have found, however, that trying to present an entire financial plan in one or two meetings is too cumbersome and overwhelming to most Clients; and it does not promote the type of communication that we feel is imperative in a good Comprehensive Financial Planning product.



## **Hourly Consulting Fees**

### **Types of Clients**

- Individuals (including high net worth individuals).
- Pension and Profit Sharing Plans (other than the Business Owner/Plan Sponsor who would be considered individual Clients of GFM).
- Charitable Organizations.
- Corporations
- Trustees, Trusts and Foundations

### **Description**

It is unusual for GFM to work with Clients on an hourly basis. All Clients must go through the IFO process first. After this two hour process the Client will know if they require additional service from GFM.

If additional service is required, the Client may use our Asset Management service, our Comprehensive Financial Planning service, or both.

On occasion, a Client may still be uncomfortable with our services and may want to come back in every six months or so for a review of their concerns and issues. We will charge our hourly fee for these services.

We only allow Clients to use our hourly service three times after the IFO. After three times we must really consider that the Client is utilizing our services on a continuous basis; and as such needs to be either in our Asset Management service, our Comprehensive Financial Planning service, or both.

We have found that we do not communicate a quality Financial Planning or Asset Management product on a piece-meal basis.

### **Hourly Consulting Fees**

Each of our Shareholders has a different Hourly Fee schedule:

Gregory M. Galecki, CFP	\$350.00
Albert Thomas Kohout, CFP, MBA	\$250.00
Brady M. McArdle, CFP	\$250.00
Melanie S. Colwell, CFP	\$200.00





Any Client choosing to use our Hourly Consulting service will receive a letter confirming the time and date of the appointment and also stating the staff member they will meet with along with the hourly rate. Any fee charged will be invoiced after the IFO is complete.

**Hourly Consulting Termination:**

It is hard to terminate an Hourly Consulting since it is a singular event. The Client can terminate this service by not keeping the appointment.



## **Retirement Plan Services**

### **Types Retirement Plan Services Clients**

The primary Client for these services will be Pensions, Profit-Sharing and 401(k) Plans, where GFM does not directly manage the underlying investments.

GFM currently has several large physician groups utilizing this service. In these particular instances, GFM is not directly managing the assets of the plan.

### **Description**

GFM's Retirement Plan Services are customized to the particular needs of the Pension or Profit Sharing Plan using this service. GFM is hired by the Trustees of the Plan, which is usually the employer (also known as the "Plan Sponsor").

This "non standard" service is offered on a "cafeteria" basis. Not all of the services listed below will be engaged by each Sponsor or Plan Trustee using our Retirement Plan Service.

- Investment Policy Statement (IPS) Development
- Portfolio Recommendation and Monitoring
- Evaluating the performance of the funds being offered to the plan participants
- Selecting and recommending which funds should be made available to the plan participants
- Meeting with the board of directors and the trustees to review our recommendations and the fund performances
- Meeting with the employees for enrollment and portfolio reviews
- Reviewing the Plan's chosen custodian
- Answering other questions in a fiduciary capacity

### **Investment Policy Statement (IPS) Development**

We will meet with Plan Trustees or the Plan Sponsor to determine an appropriate investment strategy that reflects the plan sponsor's stated investment objectives for management of the overall plan. GFM then prepares a written IPS detailing those needs and goals, including an encompassing policy (ie portfolio diversification) under which these goals are to be pursued. The IPS may also list the criteria for selection of investment vehicles as well as the procedures and timing for monitoring and evaluating their investment performance.

This service does not include recommendations or selections for specific investments. That service is listed next.



### **Portfolio Recommendation and Monitoring**

After an appropriate IPS has been developed (whether by GFM or an existing IPS), we assist the Trustees in selecting specific investments. We will review the current investments being used and make recommendations for any changes. GFM will research various Mutual Funds (both index and managed), ETFs, Cash accounts and other investments to determine which investments are appropriate. The number of investments to be recommended and used will be determined by the Trustees.

GFM is deemed to be a fiduciary to the employee benefit plans pursuant to the Employee Retirement Income and Securities Act ("ERISA").

### **Retirement Plan Services Fees**

Plans, Plan Sponsors (the underlying employer) or Plan Trustees are charged a annual flat fee. This fee is dependent upon the services rendered and is individually negotiated and contracted with the Plan Sponsors or Trustees.

The fees are agreed to and contracted before services begin.

### **Retirement Plan Services Termination**

The Retirement Plan Service fee is charged in advance on a quarterly basis. Most of the actual behind the scenes work each quarter is done at the very beginning of the quarter.

Any part of the Retirement Plan Service fee that has been paid is not refundable to the Client upon termination of the Retirement Plan Service Agreement. Again, this is due to the fact that most of this work is done at the beginning of the quarter and in advance of any meeting with the Client or plan participants.



**Assets Under Management:**

As of January 22, 2014, GFM was actively managing \$357,828,990 of Client assets on a discretionary basis for 304 clients.



## **Item 5 - Fees and Compensation**

We have listed and explained our Fees in Item 4. Let us offer a summary here:

- 1) Initial Financial Overview (IFO)      \$775  
    See Page 8
- 2) Asset Management  
    Fee based upon assets under management.  
    See schedule on Page 11
- 3) Comprehensive Financial Planning.  
    Annual retainer based upon quotes given after IFO.  
    See Page 16
- 4) Hourly Fees      \$150 to \$250 per hour.  
    See Page 19
- 5) Retirement Plan Services  
    Annual retainer based upon negotiated quote and services offered.  
    See Page 22

GFM only receives direct compensation from our Clients.

Please see Item 12 regarding soft-dollar issues, which are indirect economic benefits received from others.

Under no circumstances do we require fees in advance of services rendered for six months.

## **Item 6 - Performance Based Fees**

Galecki Financial Management does not charge performance based fees.

Performance based fees are generally charged by hedge fund managers.

For example, a hedge fund may charge a Client 2% per year of assets under management, plus 20% of any of the profits earned above a set amount (such as 5%).

Therefore, a hedge fund that has a 10% return in a given year might earn

2% plus

20% of (10% actual return minus 5% target) = 1%



For a total of 3%

GFM believes that such performance based fee schedules give the Advisor a strong incentive to hurt the Client by investing too aggressively.

## **Item 7 - Types of Clients**

We listed the type of Clients that use each of our services in Item 4.

Let us summarize this again:

### **Initial Financial Overview (IFO) Clients**

- IFO Clients have always been modest, moderate, and high net worth individuals.

### **Asset Management Clients**

- Individuals (including high net worth individuals).
- Pension and Profit Sharing Plans (other than the Business Owner/Plan Sponsor who would be considered individual Clients of GFM).
- Charitable Organizations.
- Corporations
- Trustees, Trusts and Foundations

### **Comprehensive Financial Planning Clients**

- GFM only prepares Comprehensive Financial Plans for Individuals (including high net worth individuals).

### **Hourly Fees - \$150 to \$250 per hour.**

- Individuals (including high net worth individuals).
- Pension and Profit Sharing Plans (other than the Business Owner/Plan Sponsor who would be considered individual Clients of GFM).
- Charitable Organizations.
- Corporations
- Trustees, Trusts and Foundations

### **Retirement Plan Services**

- The primary Client for these services will be Pensions, Profit-Sharing and 401(k) Plans, where GFM does not directly manage the underlying investments.
- GFM currently has several large physician groups utilizing this service. In these particular instances, GFM is not directly managing the assets of the plan.



## **Item 8 - Method of Analysis**

GFM begins its analysis of investments as an Investment Committee made up of;

Gregory M. Galecki, CFP	President
Albert Thomas Kohout, CFP, MBA	Relationship Manager
Brady M. McArdle, CFP	Relationship Manager
Melanie S. Colwell, CFP	Financial Planner

The Investment Committee is scheduled to meet formally every Wednesday for at least an hour. During the Investment Committee meeting, we review:

- Client portfolios
- the performance of our individual investments in relation to their indices
- economic and business news
- projection for future economic growth and how we might react to unknown future economic events (ie what-if scenarios)
- the asset allocation of our models and portfolios
- any Client feedback

The Investment Committee closely reviews three or four different economists and also three or four different publications. The reviewed economists and publications have been long-term followings.

The Investment Committee also analyzes Mutual Funds and other investments based upon proprietary methods. The purpose of these analyses are to determine which investment managers are consistently out-performing their indices based on risk, return and other intangible characteristics.

Rather than focusing primarily on individual investments or stock selection, GFM attempts to identify an appropriate mix/diversification of asset classes based upon our on going research and monitoring of economic and business news.

Developing an asset class diversification strategy is an art that takes years to develop. GFM diversifies Client portfolios based upon the following major asset classes:



Fixed income assets:

Short-term bonds  
Intermediate-term bonds  
Long-term bonds  
Municipal bonds  
Treasury inflation protected bonds  
Convertible bonds  
High-yield bonds  
Global bonds  
International bonds  
Emerging market bonds

Equity holdings:

Small cap value  
Small cap growth  
Mid cap value  
Mid cap growth  
Large cap value  
Large cap growth  
International small cap value fund  
International mid cap value fund  
International large cap value fund  
International emerging fund  
Country-specific ETF

Alternative Investments:

Market neutral funds  
Global or international real estate trusts  
Real estate investment trusts  
Preferred stock  
Bear funds

Any of the above asset classes could be used within the GFM portfolios as initially determined by the Client's overall risk and return objective, and then further specified by the Investment Committee's asset allocation in each Client's portfolio.

Mutual Fund/ETF analysis: GFM considers the experience and track record of the manager of the Mutual Fund or ETF in an attempt to determine if that manager has demonstrated an ability to successfully invest over a period of time and in different economic conditions. The experience of the manager is not as important in a passively managed (indexed) investment. GFM also monitors the Mutual Fund in an attempt to determine if they are continuing to follow their stated investment strategy.

An inherent risk of Mutual Fund and/or ETF analysis is that, as in all equity investments, past performance does not guarantee future results. A manager who has been successful in the past may not be able to replicate that success in the future. GFM does not control the underlying investments in a Mutual Fund or in ETFs. Manager of different funds may purchase the same stock, increasing the risk to the Client that if the individual stock were to fall in value, their portfolio would decline in value. There is also a risk that a manager may deviate from the stated investment objective or strategy of the Mutual Fund or ETF, which could make the holding less beneficial for the Client's diversification strategy.





One of our ongoing efforts is to make sure that the Mutual Funds and ETFs that we select for our Clients' portfolios continue to invest in the asset class for which they were chosen.

Here are some risks that GFM believes our Clients and their portfolios are subject to in our Asset Management service. These are really the same risks that anyone who invests in a portfolio of Mutual Funds would also be exposed to. There are no significant risks that a Client undertakes by using GFM's Asset Management service as opposed to self-directing in a Mutual Fund portfolio.

It is hoped that the following attributes will actually reduce a Client's overall risk as opposed to investing in a portfolio of Mutual Funds without professional management.

- years of experience,
- unemotional attachment to the investments,
- knowledge of portfolio construction and management during different economic and market conditions,
- research and
- full time focus

Risks to any Mutual Fund Portfolio:

- Change in Mutual Fund manager
- Style shift
- Inaccurate or biased ratings of bonds or other investments
- Down grade of credit quality in bonds being held
- Change of interest rates (especially increasing)
- Flattening or changing of yield curve
- Change in currency exchange rates between countries
- An Asset allocation model that is not rewarded by the market
- Inflation
- Recession
- Lack of trading or market liquidity either in our investments or the market as a whole (2008)
- Changes in tax and/or security laws
- Loss of principal due to market movement
- One time events
  - 9/11
  - BP Oil rig explosion
  - Hurricane Katrina
  - Political unrest or forced change (Tunisia, Egypt)
  - Japanese Earthquake and subsequent Nuclear fallout
  - European Bank



➤ Deficits and debt in our country and others

There will always be many other risks that are not yet known or foreseeable. That is the nature of long term investing.

Trying to explain each of the above risks is beyond the scope of this document. We pride ourselves in the education and communication that we bring to our Clients. It is expected that most, if not all, of the above risks will be discussed with our Clients over the course of any 24 month period. Market and economic changes typically lead to a discussion of these various risks.

Our investment analysis methods rely on the assumption that the Mutual Funds and ETFs we purchase and sell, the rating agencies that review these investments, and the publicly available sources of information about these investments, are providing accurate and unbiased data.

While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

We purchase investments with the idea of holding them in the Clients' accounts for a year or longer. Typically we employ this strategy when we want exposure to a particular asset class over time.

As a practical matter, we do not employ short-term purchases. Some economic and market conditions may surface which lead the Investment Committee to sell out of an investment that was purchased within the previous three to six months, especially in the case of a new Client. This is a due to when the Client began with GFM, and not a short-term strategy.

GFM has been studying technical analysis and economic predictions based on technical analysis for a number of years. We have not yet implemented any buy or sells based upon the technical analysis that we subscribe to and read. However, it is possible in the future that GFM's Investment Committee will act upon technical analysis in the future. Such portfolio moves should not be viewed as market timing, since we will not sell out equities or fixed income assets completely, but may use technical analysis to direct our diversification into different asset classes.



## **Item 9 – Disciplinary Information**

GFM is required to disclose any legal or disciplinary events that are material to a Client or perspective Client's evaluation of our advisory business and the integrity of our firm.

GFM is pleased to report that no Client has ever brought suit against GFM or otherwise requested arbitration. As a matter of fact, GFM has never received a written complaint in our 20+ year history.

We are very proud of this record and know that many Registered Investment Advisors with the Securities and Exchange Commission cannot make this claim.

Our firm and our management personnel have no reportable disciplinary events to disclose.

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

Our firm and our employees are not engaged in any other financial industry activities and have no other industry affiliations.

All GFM staff and employees are mandated to report any outside employment in which they are engaged.



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

GFM has adopted a Code of Ethics which sets high ethical standards of business, conduct and compliance which we require all of our staff and employees to sign on an annual basis.

Employees must also comply with applicable federal security laws.

GFM and our personnel owe a duty of loyalty, fairness and good faith towards our Clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics, but to the general principles that guide our code.

Our Code Of Ethics include policies and procedures for the review of employees' quarterly stock holdings, transactions, statements as well as annual investment statements that must be submitted to the Chief Compliance Officer (Brady McArdle).

Among other things, our Code of Ethics also requires the prior approval of any acquisition of stock in a limited offering (ie private placement), or an initial public offering.

Our Code of Ethics also provides for oversight, enforcement and record keeping provisions.

GFM employees do not have to report their transactions in Mutual Funds, government debt, or investments in their 401(k). Employees must report purchases and sales of stocks (ie AT&T, Microsoft, etc.).

The purpose for employees reporting the stock transactions is to make sure that they are not taking advantage of market movements created by trades that GFM may place.

An explanation may be in order here. Large broker/dealers or Mutual Funds may hold millions of shares of a particular company (for instance, AT&T). Certain people inside of the broker/dealer or Mutual Fund may find out that the firm is planning on selling all of their shares in AT&T. The sheer volume of the shares may move the price of AT&T down from \$40 to \$37 (as an example), for a day or two. An unscrupulous employee of that broker/dealer or Mutual Fund may sell their personal holdings in AT&T before the large order is placed by the Mutual Fund or broker/dealer. Or, they might otherwise buy shares of AT&T after the trade has been placed and the price has moved downward.

This fraudulent and illegal activity is called front-running.

In order to make sure that employees of Registered Investment Advisors, broker/dealers, Mutual Funds, and other organizations are not front-running, the SEC mandates that all employees of such organizations need to disclose all of their purchases or sales in stock investments.



As a practical matter, GFM does not buy individual stocks (such as AT&T) for our clients. Even if we did, our holdings would not be large enough to move the market in one direction or another. Therefore there is little or no opportunity for GFM employees to employ illegal front-running techniques for personal gain.

Regardless, we are properly mandated to report any stock holdings and transactions to our Chief Compliance Officer.

The purchase or sale of a Mutual Fund is done at the end of the day. They are placed at a value calculated at the end of each day called the net asset value (NAV). The value of the NAV is never known when a Mutual Fund trade is placed. Therefore, front-running cannot occur in Mutual Fund purchases.

GFM's Code of Ethics further includes the firm's policies prohibiting the use of material non-public information of publicly held companies. While we do not believe that we have any particular access to non-public information of publicly held companies, all employees are reminded that such information may not be used in a personal or professional capacity.

GFM provides a list of stocks that GFM staff and employees are restricted from buying. It is a policy of GFM to restrict employees and staff from buying stock in any company which our Clients are directors, upper management or otherwise could have access to non-public information. At this time of this writing, March 2011, there were no stocks on our restricted list. In the past, GFM employees and staff had been restricted from buying Tower Financial Bank shares, Zimmer Holdings, Lincoln National Company and Franklin Electric.

A copy of our Code of Ethics is available to our advisory Clients and prospective Clients. You may request a copy by e-mail at [brady@galecki.com](mailto:brady@galecki.com) or by calling us at 260-436-8525.

GFM and individuals associated with our firm are prohibited from engaging in principal transactions. This means that GFM and its employees cannot directly buy or sell individual stocks or other securities directly with GFM clients.

Our Code of Ethics is designed to ensure that the personal stock transaction, activities and interests of our employees will not interfere with

1. Making decisions in the best interest of advisory Clients and
2. Implementing such decisions while, at the same time, allowing employees to invest with their own accounts.

GFM staff and employees may buy, for their personal accounts, investments identical to or different from those recommended to our Clients. GFM encourages the Investment Committee members to use portfolios similar to the portfolios in which we invest our Clients. In addition,



any related persons may have an interest or position in a certain stock which may also be recommended to a Client.

## **Item 12 – Brokerage Practices**

GFM places all Client assets with a third party custodian (ie Schwab or TD Ameritrade) that can facilitate Mutual Fund, stock and other investment trades for the Client account - this defines a broker/dealer. In special circumstances, GFM will place Client assets directly with a no-load Mutual Fund company.

Prior to 1993, GFM, then known as Krouse Financial Planning, Inc. placed all Mutual Fund investments directly with the individual Mutual Fund companies. Receiving and manually inputting individual confirmations and monthly dividends quickly became an overwhelming task. The two possible solutions were to hire additional staff (and raise Client fees) or begin using a third party custodian with downloading and other technological capabilities.

By using a third party custodian, GFM was actually able to reduce the fee charged to Clients for our Asset Management services. Custodians charge a brokerage commission for stock or ETF trades, and they charge a transaction fee on some Mutual Fund trades. Even though custodians may charge a commission or a transaction fee, the additional commission and transaction fee have been less than the additional management fee that GFM had to charge for the additional staff.

Furthermore, the technologically advanced custodian can ensure that the accuracy and integrity of Client accounts are maintained. Accuracy is of the utmost importance to GFM!

**GFM does not receive any part of the custodian's commissions or transaction fees.**

In choosing a custodian, GFM looks for the following:

- Cost effectiveness and cost competitiveness.
- Responsiveness to Client problems and questions.
- Financially secure with adequate account protection.
- Technologically advanced.
- Accuracy and reliability.
- Trade execution and quality.
- Back up resources and procedures.

GFM recommends that Asset Management accounts be held at either Charles Schwab & Co, Inc. (Schwab) or TD Ameritrade (Ameritrade).



GFM has used other custodians in the past such as Vanguard and Fidelity, and has been disappointed with their technological abilities, support and services to our firm. In fairness to those custodians, GFM did not keep enough assets under management with either organization to be promoted to their more elite service channels. It may be that these custodians have since increased their technological abilities.

Prior to engaging GFM to provide Asset Management services, the Client will be required to enter into a formal Asset Management Agreement with GFM setting forth the terms and conditions under which GFM shall manage the Client's assets, and a separate custodial agreement with each designated custodian. GFM will assist the Client with opening accounts at the custodian (we have the paper work) and assist with any transfer of assets/investments to the custodian.

It is not mandatory for a Client to have an account at one of the custodians that GFM uses (Schwab or Ameritrade). GFM does have several Clients that hold assets at Fidelity, Lincoln Financial and other custodians.

The Client also gives authorization to the custodian for GFM to receive downloaded computer data regarding the Client's account; such as the account holdings, the current price of the holdings, the transactions, reinvested dividends, deposits and withdrawals.

The GFM Asset Management Agreement and the custodian application/agreement may authorize the custodian to debit the Client's account for the amount of GFM's Asset Management fee, and directly pay that management fee to GFM in compliance with other regulatory procedures.

In the event that GFM bills the Clients directly, payment is due upon the receipt of GFM's invoice.

The Asset Management Agreement between GFM and the Client will continue in effect until terminated by either GFM or the Client via a written notice, in accordance with the terms of the Asset Management Agreement.

Issues that GFM considers when and if recommending Schwab or Ameritrade to new Clients include:

- Historical relationship with GFM
- Financial Stability and Safety of custodian
- Reputation
- Execution capabilities
- Pricing of stocks
- Research
- Other Services



**GALECKI FINANCIAL MANAGEMENT, INC.**  
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In seeking best execution, the determining factor is not just the lowest possible cost, but whether the transactions represents the best quality execution, taking into consideration the full range of services, including the value of research provided, execution capabilities, commission rates, and responsiveness. GFM will negotiate competitive fees with each custodian. The fees GFM negotiates may not necessarily be the lowest possible rates in the industry. But we have learned by working with other custodians that cheapest rate is rarely the best.

GFM has indeed negotiated a significant discount at both Schwab and Ameritrade for our Institutional Clients over their normal retail costs. Note: GFM is considered to be an Institutional Investor with Schwab and Ameritrade. Therefore, any of our Clients are considered Institutional Clients

Below is a comparison of Schwab and Ameritrade retail costs versus the GFM negotiated Institutional rates.

*Schwab*

	Retail	GFM	Discount to GFM Clients
Mutual Funds with a transaction fee via phone			
	\$74.95	\$23.00	69%
Mutual Funds with a transaction fee via internet			
	\$49.95	\$23.00	54%
Mutual Fund with no transaction fee via internet			
	\$0.00	\$0.00	N/A
Stocks/ETFs commission via phone			
	\$33.95	\$8.95	74%
Stocks/ETFs commission via internet			
	\$8.95	\$8.95	0%





*Ameritrade*

	Retail	GFM	Discount to GFM
Mutual Funds with a transaction fee			
	\$49.99	\$15.00	70%
Mutual Fund with no transaction fee			
	\$0.00	\$0.00	N/A
Stocks/ETFs commissions			
	\$9.99	\$9.99	0%

**GFM serves as a Fiduciary for all Clients at all times – in all of our services!**

As a fiduciary, GFM believes that it is in the best interest of GFM Clients for us to maintain a strong relationship with at least two custodians.

It is very feasible that either Schwab or Ameritrade could one day suffer financial setbacks that require them to be bought out by another party, or even discontinue business. While GFM has researched the financial stability of both Schwab and Ameritrade, we always have to be prepared -- as a fiduciary -- to have a back up custodian ready for our Clients in the event of any financial catastrophe to either of these institutions

Each custodian has their benefits for the GFM Client base. If a Client already has a Charles Schwab account, we prefer to keep the Client's relationship at Charles Schwab.

If a new Client already has an Ameritrade account, we will prefer to keep the new Client at Ameritrade.

Most new Clients are indifferent to using Schwab or Ameritrade and place their trust with our decision of which custodian to use. These new Clients are split between Schwab and Ameritrade for the practical business reasons mentioned above. We try to keep all of any one particular Client with the same custodian.

GFM participates in the TD AMERITRADE Institutional program. TD AMERITRADE Institutional is a division of TD AMERITRADE, Inc. (δTD AMERITRADEö) member FINRA/SIPC/NFA. TD AMERITRADE is an independent and unaffiliated SEC-registered broker-dealer and FINRA member. TD AMERITRADE offers to independent investment



Advisors services which include custody of securities, trade execution, clearance and settlement of transactions. GFM receives some benefits from TD AMERITRADE through its participation in the program.

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

GFM also receives from TD Ameritrade certain additional economic benefits ("Additional Services") that may or may not be offered to any other independent investment Advisors participating in the program. Specifically, the Additional Services include Junxure, Morningstar Workstation, and By All Accounts.

TD Ameritrade provides the Additional Services to GFM in its sole discretion and at its own expense, and GFM does not pay any fees to TD Ameritrade for the Additional Services. GFM and TD Ameritrade have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services.

GFM's receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to GFM, TD Ameritrade most likely considers the amount and profitability



to TD Ameritrade of the assets in, and trades placed for, GFM's Client accounts maintained with TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum with GFM, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, GFM may have an incentive to recommend to its Clients that the assets under management by GFM be held in custody with TD Ameritrade and to place transactions for Client accounts with TD Ameritrade. GFM's receipt of Additional Services does not diminish its duty to act in the best interests of its Clients, including best execution of trades for Client accounts.

Galecki Financial Management, Inc. considers a number of factors in selecting brokers and custodians at which to locate (or recommend location of) its client accounts, including, but not limited to, execution capability, experience and financial stability, reputation and the quality of services provided. In selecting TD AMERITRADE Institutional (TD Ameritrade) as the broker and custodian for certain of its current and future client accounts, GFM takes into consideration its arrangement with TD Ameritrade as to obtaining price discounts for TD Ameritrade's automatic portfolio rebalancing service for advisors known as iRebal.

The standard iRebal annual license fee applicable to GFM is \$20,000. That fee is subject to specified reductions (and even complete waiver) if specified amounts of client taxable assets are either already on the TD Ameritrade platform or are committed to be placed on it. Specified taxable client assets either maintained on or committed to the TD Ameritrade platform will bring fee reductions for as many as three years or more.

The non-taxable assets excluded from the maintenance and commitment levels are those that constitute plan assets of plans subject to Title 1 of the Employee Retirement Income Security Act of 1974, amended, or of plans as defined in Section 4975 of the Internal Revenue Code (which include IRAs).

If GFM does not maintain the relevant level of taxable assets on the TD Ameritrade platform, GFM may be required to make a penalty fee payment to TD Ameritrade calculated on the basis of the shortfall.

Although GFM believes that the products and services offered by TD Ameritrade are competitive in the market place for similar services offered by other broker-dealers or custodians, the arrangement with TD Ameritrade as to the iRebal service may affect GFM's independent judgment in selecting or maintaining TD Ameritrade as the broker or custodian for client accounts.

GFM also participates in training sessions held by Schwab and Ameritrade at various locations. These sessions typically include updates on new services and technologies at these firms, as well as economic updates, Mutual Fund management updates, and industry continuing education. It is typical that GFM will receive a reduced rate for hotel rooms, or dining at a conference of this



nature. However, the hotel room discounts are not subsidized by Schwab and Ameritrade as much as they are simply block discounts as you would also get if attending a wedding party.

### **Item 13 - Review of Accounts**

- Initial Financial Overview (IFO) ó There is nothing to review in this service. It is a one time event with a prospective Client. This is not an ongoing account.
- Asset Management -Account supervision is monitored by GFM's Investment Committee and communicated to each Client by an assigned staff professional.
- Comprehensive Financial Planning ó This is an ongoing service on an annual retainer. Recommendations to asset class diversification are consistent with the current asset allocation as prescribed by the Investment Committee.
- Hourly Fees - There is nothing to review in this service. It is an infrequently used service with a prospective Client. This is not an ongoing account or service.
- Retirement Plan Services - This is an ongoing service on an annual retainer. Recommendations to asset class diversification are consistent with the current asset allocation as prescribed by the Investment Committee.

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

It is Galecki Financial Management policy not to engage solicitors or pay related or non-related persons for referring potential clients to our firm.

It is GFM's policy not to accept or allow our related persons to accept any form of compensation, including cash, sales' awards, or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.



## **Item 15 – Custody**

As previously discussed in the "Fees and Compensations" section (Item 5) of this brochure, GFM directly debits Asset Management fees from Client accounts. This is a very common for Fee-Only advisors.

"Custody" has historically been defined as an advisor who actually holds Client assets in the advisor's name.

In such a case, the Client would write checks directly to that advisor as opposed to a third party custodian.

Therefore, if a Client held money at Schwab or Ameritrade in their own name, the advisor did not have custody. All new deposits (checks) would be made payable to Schwab or Ameritrade.

Beware of ANY advisor that has you write a check directly to their firm! Walk away. It is not worth the risk. A ponzi scheme cannot be created if your assets are held by a third and trusted party.

The Securities and Exchange Commission (SEC) has modified the definition of custody to include having the power to directly debit the advisor's fee. That would include GFM.

As part of the billing process, the Client's custodian is advised of the amount of the Asset Management fee to be deducted from the Client's account. GFM also sends invoices directly to our Clients before the fees are deducted from their custodian.

Each month our custodians (Schwab and Ameritrade) send to each Client a statement showing all of the transactions within the account during the month, including portfolio positions, balances and transactions. This statement also includes any distributions from the account, including the GFM management fee.

Because the custodian does not calculate the fee that needs to be deducted, it is important for Clients to carefully review their monthly statements. Clients should contact GFM directly if they believe there has been an error in their invoice or the statement they received from their custodian.

In some instances, where Clients hold retirement plan assets at a plan other than Schwab or Ameritrade, GFM may be using the Clients internet log-in information to manage these assets.

In these cases, GFM is also deemed to have custody according to a more recent definition. If the log-in information, which is given to GFM, allows the person logging in to the Client's account to direct a payment to a third party, or to change the address of record, the Securities and Exchange Commission has deemed this to be custody.



GFM is now required to hire an independent outside auditor to make a surprise audit each year of the accounts that we have log-in privileges.

In both of the above cases of "custody", GFM does not have physical custody of the Client's assets, and the assets are not in GFM's name.

## **Item 16 - Investment Discretion**

GFM manages Asset Management accounts on a discretionary basis. "Discretionary" means that GFM's Investment Committee determines what, when and how much of each investment to buy or sell without the approval of the Client on each individual transaction.

Clients give GFM discretionary authority when they sign our Asset Management Agreement.

The Client also gives GFM discretion on the custodian application or Limited Power of Attorney form. This allows the custodian to accept our trades and orders for the client's account.

Clients may change/amend these discretionary instructions at any time by contacting the custodian directly.

## **Item 17 – Voting Client Proxies**

As a matter of firm policy, we do not vote proxies on behalf of Clients. Therefore, although GFM may provide investment Asset Management services relative to Client accounts, Clients maintain exclusive responsibility for

- Directing the manner in which proxies elicited by issuers of investments beneficially owned by the Client shall be voted and
- Making all elections relative to mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the Client's investment assets. Clients are responsible for instructing each custodian of their accounts to forward to the Client copies of all proxies and shareholder communications relating to the Client's investment assets.

We do not offer any consulting assistance regarding proxy issues to Clients. As a general rule, we encourage our Clients to accept the recommendations of the board of directors on each proxy received. We tell our Clients that we do not necessarily use shareholder proxies to vote for or



against the board of directors. If we choose to vote against the investment we simply sell the investment.

## **Item 18 - Financial Information**

GFM has no additional financial circumstances to report.

Under no circumstances do we require payment of fees more than six months in advance of services rendered. Therefore, we are not required to include a financial statement with this ADV filing.

GFM has not been the subject of a bankruptcy petition at any time during the past 10 years.

## **Appendix A - Definitions and Background Information**

To better understand the financial service industry; let us introduce some terms, concepts, and definitions. We believe by better understanding these terms and concepts you will become a more informed and sophisticated consumer of financial services.

In 1933 and 1934, securities laws were enacted which set up how stock brokers (working on commission) should be regulated. These regulations dealt with the:

- amount of the commission they could charge,
- the type of advertising they could use,
- the claims they could make,
- the protections that the consumers had,
- and other such compliance issues.

It is important to recall that financial services were only offered to the general public through commissioned stock brokers when these laws were enacted in the 1930s. The protections were designed to prevent commissioned brokers from injuring the general public. These rules were not designed nor did they anticipate FEE-ONLY services.

In 1940, the Investment Company Act was passed. An investment company is a Mutual Fund. These laws stated that if a fee was charged (Mutual Fund companies charge a management fee) that such companies would be required to file as a Registered Investment Advisor with the Securities and Exchange Commission.

As the years have gone by, sophisticated Clients and investors have demanded Fee-Only financial planning and investment advisory services. A Fee-Only planner does not accept commissions and therefore does not fall under the Securities Acts of 1933 and 1934 regulating brokers and broker/dealers.





Therefore, Fee-Only financial planners defaulted to the rules of Registered Investment Advisors, since they charge a fee and fit under the 1940 Investment Company Act.

**“Broker”** - A broker is a person who earns a commission. A Broker is not working for the benefit of the customer or the Client. This is well understood in case law. All consumers are expected, by the Securities Exchange Commission, to understand that their brokers are not mandated to have the Client's best interests in mind. A broker must however, only place Clients in investments that are suitable to the Client's needs. Suitability is a very elusive definition and is a case by case determination. Only the most egregious conflicts are deemed to be unsuitable in arbitration or case law.

**“Dealer”** - A dealer is a person or an organization that purchases securities for their own accounts with the purpose of selling them to someone else at a later time. Dealers are most often found on the bond side of the financial services industry. It is very common for organizations to purchase bonds and then try to sell them at a higher price.

Dealers are not required to have a Client or customer's best interests at stake. They, again, are restricted to a suitability standard which is hard to prove or disprove. The commissions or the mark-up that they charge is regulated. There is no guarantee that such mark-ups are not outside of the regulation requirements.

**“Broker/Dealers”** - Companies that employ brokers and otherwise hold securities are called broker/dealers. Commonly known broker/dealers include Merrill Lynch, Smith Barney, Charles Schwab, TD Ameritrade, Fidelity, and Vanguard. Even though some of the above companies are better known as custodians or Mutual Fund companies, they do indeed have arms that are broker/dealers.

All commissioned stock brokers must be affiliated with a broker/dealer. The broker/dealer collects the commissions and pays them to the broker.

*If you are considering another Advisor, check their ADV to see if they are “affiliated” with a broker/dealer. That will tell you if they sell products or earn commissions. They will also be members of FINRA which is typically easy to identify.*

**Sales Charges in Mutual Funds** - Contrary to popular belief, Mutual Funds that charge a sales charge do not generally keep the sales charge. The sales charge is given to the selling broker and his/her broker/dealer. Mutual Funds do not need the sales charge for their own operations; it is simply a method of paying for a distribution channel.

**“Custodian”** - GFM hires/contracts with Charles Schwab and TD Ameritrade to serve as custodian for our Client accounts. A custodian actually takes possession and holds your money





until it is invested. This is YOUR assurance that your money is safe and being held by a third party. There is, in our seasoned opinion, no reason NOT to use a third party custodian. A ponzi scheme cannot be created if a legitimate third party custodian is being used.

**Security or Stock** – The terms “security” or “securities” is used too often in these ADV documents in confusing and conflicting ways. Securities may include:

- individual stock issues (ie AT&T),
- investments in Mutual Funds,
- government securities (Treasury Bills or Treasury Bonds),
- CDs held in a brokerage account,
- Money markets held in a brokerage account,
- Corporate bonds,
- Municipal bonds,
- Exchange Traded Funds (ETFs).