

Item 1 – Cover Page

KUTSCHER RHODES & BENNER, INC.

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March 13, 2014

This Brochure provides information about the qualifications and business practices of KUTSCHER RHODES & BENNER, INC. If you have any questions about the contents of this Brochure, please contact us at (206) 462-6100 and/or [srhodes@krbfinancial.com](mailto:srhodes@krbfinancial.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.

KUTSCHER RHODES & BENNER, INC. is a registered investment advisor. Registration of an investment advisor does not imply any level of skill or training. The oral and written communications of an advisor provide you with information about which you determine to hire or retain an advisor.

Additional information about KUTSCHER RHODES & BENNER, INC. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

This Brochure dated March 17, 2014 amends our Brochure dated March 29, 2012. No material changes were made to the brochure since our last amendment.

Pursuant to SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Scott Rhodes at (206) 462-6100.

Additional information about KUTSCHER RHODES & BENNER, INC. is available via the SEC's web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with KUTSCHER RHODES & BENNER, INC. who are registered, or are required to be registered, as investment advisor representatives of our firm.

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Brochure Supplement(s)

## Item 4 – Advisory Business

KUTSCHER RHODES & BENNER, INC. (“the Firm”) has been providing financial counsel to individuals, families and trustees since 1992. Our practice emphasizes in-depth financial planning services that integrate the:

- ◆ establishment and maintenance of an investment policy
- ◆ recommendation of appropriate asset allocation
- ◆ selection of sub-advisors and investment strategies
- ◆ strategies for harvesting employee stock options and dealing with other stock concentration situations
- ◆ reporting of investment performance
- ◆ consideration of budgeting and cash flow
- ◆ planning and preview of tax issues
- ◆ analysis of retirement savings and spending targets
- ◆ assessment of insurance and risk management
- ◆ analysis of estate planning needs and charitable goals

Advice is provided on an on-going basis and is tailored to each client’s needs and circumstances. This approach takes into account all of a client’s investment assets, which may include employer retirement plans, commercial real estate, annuities and individual stocks and bonds. We customize each plan with the client’s situation in mind, which may include the inclusion of “socially responsible investments” and other investment approaches that might be unique to a client’s wishes or circumstances.

We believe that client oversight and review of our investment recommendations is important to successful client relationships. Accordingly, any changes to a client’s investment portfolio will be subject to the client’s advance approval. As of December 31, 2013, the Firm had non-discretionary regulatory assets under management of approximately \$300 million. The Firm also provides advice for assets not considered in this figure; however, since many of those assets are illiquid or their valuation is variable or difficult to obtain, we’ve excluded them from the figure listed above.

Frederic (“Ted”) Kutscher, Scott Rhodes and Scott Benner are equal owners of the Firm and their professional and educational backgrounds are described in detail in the attached brochure supplement.

## **Item 5 – Fees and Compensation**

### **STANDARD FEE (ADJUSTED WHEN THE PERIODIC REVIEW IS PERFORMED)**

*Covers financial planning services including phone calls, meetings, and activities associated with financial counseling through the course of one year. The Firm receives an annual fixed fee for financial counseling services, as described below. Fees charged are the Firm’s only form of compensation. For example, we do not receive commissions or payments for any financial recommendations or referrals we make. The annual fee for our services is fixed at the contract date and is usually adjusted when the financial review is performed, which is generally annually.*

The Firm has two primary approaches for charging for our services: an annual retainer approach or a mathematically based model that applies a fee calculation to the amount of investments. Due to the nature of the two approaches, the mathematically-based model is generally not negotiable and the annual retainer fee approach is. The Firm will, for isolated instances as described in the section entitled, “Non-Standard Fee Arrangements” located below, provide our services for an hourly fee.

### **“Retainer Fee” Approach.**

Determining the retainer amount involves consideration of the complexity of the relationship, the time, effort and skill required to perform the necessary work, as well as the responsibility entailed in providing financial counseling services. The retainer is typically adjusted each year for inflation when we perform the financial review. If material changes occur in net worth or our responsibilities, we may discuss the retainer fee to reach an agreement about a new fee in advance of any change.

**“Mathematically-Based” Fee Approach.**

***For Portfolios With Investments Under \$1,300,000 (Only clients joining after 10/15/2011)***

Base Component .....\$2,000

Asset-Based Component (percentage of investment portfolio)

On the first \$700,000 of investment assets.	0.7%
On assets over \$400,000 and under \$1.1 million.	0.6%
On assets over \$1.1 million and under \$1.3 million.	0.4%

***For Portfolios With Investments Over \$1,300,000***

Base Component .....\$500

Asset-Based Component (percentage of investment portfolio)

On the first \$500,000 of investment assets.	0.8%
On the assets over \$500,000 and under \$2 million.	0.7%
On the assets over \$2 million and under \$4 million.	0.6%
On the assets over \$4 million and under \$9 million.	0.5%
On the assets over \$9 million.	0.2%

**NON-STANDARD FEE ARRANGEMENTS.**

We don't normally provide financial counseling services on an hourly basis, but expert testimony, review of isolated issues and other financial advisory matters will be considered case-by-case. Billing for non-standard projects is usually based on hourly rates but can also be a fixed fee.

	Hourly Rate
Professional Financial Planner	\$350
Financial Associates	\$200

**SET-UP FEE (INITIAL YEAR).**

This one-time fee covers initial information-gathering, issue identification, reports, letters and meetings associated with the Firm becoming acquainted with a client's overall financial situation. The fee is generally equal to 35% of the annual fee, subject to a cap of \$10,000.

**INCIDENTAL COSTS AND EXPENSES.**

Out-of-pocket expenses and charges such as copies, postage and long-distance telephone are covered by a routine surcharge of 1.25% of the fees described above. Extraordinary out-of-pocket expenses such as messenger charges, Federal Express (or other expedited delivery charges) and application fees, are extra and will be itemized on each invoice.

**PAYMENT AND TIMING OF FEES.**

The specific manner in which fees are charged is established in a client's written agreement with us, and we provide any update to our fees in our financial review. Fees are generally withdrawn in advance of each calendar quarter directly from client accounts. Notice of the fee withdrawal is noted in the client's custodian's monthly account statement. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable at that time.

**TRANSACTION COSTS, CUSTODIAL FEES AND SUB-ADVISOR EXPENSES.**

Our fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment (e.g., annuity company) 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 the funds' prospectuses. Such charges, fees and commissions are exclusive of and in addition to our Firm's fee, and we do not receive any portion of these commissions, fees, or costs. Clients have the option of purchasing securities recommended by us through other brokers or agents that are not affiliated with us.

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

KUTSCHER RHODES & BENNER, INC. does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## **Item 7 – Types of Clients**

Our clients are individuals, families and trustees.

New clients are accepted on the basis of their alignment with our philosophy and process. New clients generally must have sufficient assets to support a minimum annual fee of \$10,000. On occasion, we will accept a new client with a smaller amount of investment assets where the client has a reasonable prospect of adding significantly to their investment portfolio.



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

**Investment Philosophy.** We believe successful investing is built on a foundation of financial fitness, paired with reasonable expectations and a fidelity to enduring principles.

Many investors can't stay committed to long-term investing (which is fundamental to success) because they are uncertain about the key aspects of their finances and financial direction - that is, they don't have a firm grasp of their financial resources, spending patterns, savings, borrowings, and financial goals - and this causes them anxiety. Other investors have trouble remaining committed to the markets because they know their choices have been haphazard and they lack the knowledge to take a deliberate, disciplined approach. Still other investors have unrealistic expectations and exit the markets at inopportune times because they become disappointed or the volatility becomes emotionally unendurable.

The common denominator in investor failure is lack of understanding, which we seek to diminish through frequent, and at times intensive contact with our clients. Our outreach, accessibility and disciplined annual review process often reduce anxiety and help clients stay on course, despite the ever-present sirens of media hype, superstition, mythology, cocktail-party chatter and the dangerous effects these play on human emotions.

We want clients and potential clients to understand this philosophy, even if their perspectives differ somewhat based on their unique experiences. Substantial alignment of philosophy is important because investment advising is a two-way process. It only really works if the advisor understands the client and vice versa.

**Investment Process.** One of our goals is to make the investment process as simple as you desire without neglecting important issues, remembering that investments are just one aspect - but an important one - of your whole financial plan. Typically, the process involves the following eight steps:

### **1 Initial Information Gathering**

We begin by gathering information about your current financial affairs, needs, constraints and unique circumstances. We seek your participation and help by asking you to prepare a confidential fact sheet prior to our first meeting.

## **2 Balance Sheet & Asset Allocation Reports**

We distill your information into preliminary reports that assist us (and you) in understanding your current situation.

## **3 Issue Identification**

We analyze your current situation with you and seek to frame the financial issues that we observe or that are of particular concern to you.

## **4 Determining Goals & Expectations**

We work with you in establishing reasonable financial goals and developing reasonable expectations. We prepare an assessment of your savings needs or anticipated cash flow in retirement. We typically use two or three alternative scenarios to compare our conclusions and make recommendations.

## **5 Asset Allocation & Optimization**

We recommend a mixture of types of investments after analyzing your goals and your tolerance for such unknowns as market volatility, inflation, interest rate and currency fluctuations and credit risk. We use proprietary asset allocation models that primarily rely on modern portfolio theory and take into account behavioral economics and asset location.

## **6 Manager Recommendations**

We typically recommend two or more specific money managers for each asset class represented in our recommended allocation and may recommend other specialized investments depending on investment opportunities, liquidity needs and other factors. The firm may provide counsel regarding investments in funds-of-funds that invest in private equity and hedge funds. In researching managers, we use research by acclaimed research bureaus, interviews with fund managers and our own in-house research.

## **7 Reports**

At least once per year, we provide a full financial plan that details client's financial data. These reports typically include a balance sheet, investment returns, expected cash flow and taxes for the coming 12 months, long-term investment policy (allocation), expected returns and volatility, specific manager recommendations, recommended use of tax-deferred accounts, spending and savings forecasts, stock options and restricted stock strategies, insurance coverage and estate planning.

## **8 Implementation**

We coordinate the opening of any brokerage or custodian accounts, communicate all

trade information to the broker and custodian, and otherwise assist clients in implementing our recommendations.

**Risks of Our Approach.** Although a systematic, disciplined approach to investing minimizes the risk of loss over long periods of time, clearly, all investing involves risk of loss that clients should be prepared to bear.

In our experience, poor outcomes for clients are most often the result of their failure to keep their spending reasonable in relation to the size of their investment portfolios. So, although our approach will improve transparency in a client's financial affairs, the client must still exercise discipline in their spending in order to benefit from our services, or indeed the services of any financial advisor.

The first step in our investment approach is to explore the client's need for returns and their financial and emotional ability to withstand volatility in their portfolio. That exploration leads to the selection of an investment policy articulated in terms of broad allocations to cash, bonds and stocks, although on a tactical level other assets, such as real estate, hedge funds, and commodities are also used. If the client misjudges their sensitivity to market volatility, there is a significant risk of loss if the client needs, for emotional reasons or otherwise, to reduce exposure to securities (especially stocks) after a decline.

Because our investment work for clients is focused on investing their assets (including assets in 401(k) and other tax-deferred accounts) in liquid investments, the presence of large, illiquid assets (such as private companies or investment real estate properties) in client portfolios will have the effect of diminishing overall reliability of return and volatility expectations of our investment models. This is a matter that we address with clients who have such assets, yet the increased risk associated with those assets remains until they are sold. Unfortunately, because the assets are illiquid, the true effect of holding them cannot be known until they are sold.

Our investment policy models and the description of risk and return are based on historical data. We acknowledge that certain financial developments have no direct precedent in history, and thus historical models must be used with care. Clients risk placing undue reliance on average returns and overlooking the significant differences (either higher or lower) in returns that can persist for long periods, such as 10-years. Likewise, there is a tendency among investors to ignore extreme returns, such as the stock market crash from 2007-2009, because such events are rare.

## **Item 9 – Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of our firm or the integrity of our management. We have no information applicable to this Item.

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

Ted Kutscher and Scott Benner maintain a law practice through a law firm, Kutscher Hereford Bertram Burkart PLLC, with which Kutscher Rhodes & Benner, Inc. shares office space. Mr. Kutscher's law practice, which constitutes approximately 40% of his professional time, is focused on estate planning, probate and related legal fields. Scott Benner's law practice, which constitutes less than 10% of his professional time, focuses on "angel" investments and other privately negotiated investment and business transactions. Scott Rhodes and Ted Kutscher also provide expert witness services from time to time regarding securities transactions in connection with arbitration, mediation and court proceedings. These expert witness engagements do not amount to a material portion of Mr. Rhodes's or Mr. Kutscher's professional time, and there is no overlap between the expert witness clients and the financial advisory clients.

The law practices of Messrs. Kutscher and Benner are useful to the clients of Kutscher Rhodes & Benner, Inc. and the complexion of advice that the firm can give because many clients have issues and concerns that intersect finance and the law. Some substantial number of clients of Kutscher Rhodes & Benner, Inc. find it convenient or preferable to use the legal services of Mr. Kutscher and Mr. Benner, while many other clients use other law firms for their legal needs.

Confusion about whether Mr. Benner or Mr. Kutscher are acting as financial advisors or as lawyers is substantially eliminated by (1) them using separate email addresses, electronic signatures and printed letterhead for written communications in the law and financial practices; and (2) their requirement that a person execute an engagement letter with Kutscher Hereford Bertram Burkart PLLC describing service and fees, if they wish to obtain the legal services of Mr. Kutscher or Mr. Benner.

## **Item 11 – Code of Ethics**

The Firm has adopted a Code of Ethics for all supervised persons of the Firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition of insider trading, restrictions on the acceptance of significant gifts, the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at KUTSCHER RHODES & BENNER, INC. must acknowledge the terms of the Code of Ethics upon their hire or when the Code of Ethics is amended.

The Firm believes that the financial accounts of the principals and employees should be invested in the same general manner as we recommend to our clients. The Firm's investment recommendations consist almost entirely of publicly available mutual funds, publicly available funds-of-funds and open-ended privately subscribed registered alternative funds-of-funds. Because these securities have no significant supply constraints within the context of the quantity of assets for which we advise or which are located in our employee's accounts and are priced at fair market value of the underlying securities, they are identified as "exempt securities" in our Code of Ethics. As exempt securities, employees may trade in such securities without preclearance from the Firm's compliance officer.

In all circumstances, employees must comply with the Code of Ethics when trading for their own account. Subject to satisfying this policy and applicable laws, officers, directors and employees of KUTSCHER RHODES & BENNER, INC. may trade for their own accounts in securities which are recommended to and/or purchased for the Firm's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between the Firm and its clients.

The Firm's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Scott Rhodes.

## Item 12 – Brokerage Practices

The Firm does not maintain physical custody of your assets, although we often recommend that clients establish brokerage accounts and/or custodial accounts with qualified custodians. We routinely recommend Charles Schwab & Company, Inc. (“Schwab”) to our clients to hold assets in custody but do not require clients to use this custodian. We are independently owned and operated and not affiliated with Schwab or any brokerage firm.

Client accounts are maintained with qualified custodians. Custodians do not charge separately for custody relationships but are typically compensated by account holders through commissions, sharing of advisory fees by mutual fund companies and other transaction-related fees for securities trades that are executed through a custodian or that settle into custodian accounts. The commission rates applicable to our client accounts at Schwab were negotiated by us and the rate of mutual fund commissions charged to our clients is lower than is charged to many retail clients due to the aggregate size of our client asset base maintained at Schwab.

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

- combination of transaction execution services along with asset custody service (generally without a separate fee for custody)
- capacity to execute, clear and settle trades (buy and sell securities for your account)
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- breadth of investment products made available (stocks, bonds, mutual funds, exchange-traded funds (ETFs), etc.)
- availability of investment research and tools that assist us in making investment decisions
- quality of services, reputation, financial strength and stability of the provider
- their prior service to us
- availability of other products and services that benefit us (see below)

Schwab, a custodian that our clients use the most, makes available to us other products and services that assist with the our operations but may not benefit our clients directly. Products may include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide investment research, pricing information and other market data; facilitate payment of the Firm's fees from its clients' accounts; and assist with back-office functions, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of the Firm's accounts, including accounts not maintained with the custodians.

The custodian also makes available to the Firm other services intended to help us manage and further develop our business enterprise. These services may include consulting; publications and conferences on management, information technology, business succession, regulatory compliance, and marketing. In addition, the custodian may make available, arrange, and/or pay for these types of services rendered to the Firm by independent third parties. The custodian may discount or waive fees they would otherwise charge for some of these services or pay all or part of the fees of a third-party providing these services to the Firm. While as a fiduciary we endeavor to act in our clients' best interests, our recommendation that clients maintain their assets in accounts at Schwab could be influenced by the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by the Schwab, which may create a potential conflict of interest.

### **Item 13 – Review of Accounts**

Client financial plans, including their accounts and asset allocation are reviewed generally every 12 months. Firm principals Frederic Kutscher, Scott Rhodes and Scott Benner are primarily responsible for communications with clients regarding these matters and most written reports are reviewed by at least two principals prior to being issued to the client.

Clients' annual reports cover a review of recent financial market activity, performance of accounts (including benchmark data), cash flow forecast (budget), federal tax forecast, investment policy restatement and statistical profile, projection of portfolio value in the future (including retirement), reallocation of accounts, profile of existing financial market conditions, mutual fund manager profiles, client balance sheet, proposed trading plan, insurance coverage profile and summary of estate plan. Additional matters are added to deal with other significant financial matters relevant to the client. Clients with smaller accounts (less than \$1 million) often receive a briefer report in letter form focused on

investment management and portfolio reallocation in lieu of the larger report described previously.

Because clients are billed on an annual retainer, they can contact us for advice on financial topics without any additional charge. In the course of dealing with specific issues, account reviews will often be undertaken. We also review client accounts upon request.

On occasion, we also encounter changes in financial market risks and opportunities that are significant enough that we review and adjust virtually all client accounts. These adjustments are relatively infrequent.

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

We do not receive monetary compensation or other material recompense for referring clients to other professionals (such as tax accountants, insurance agents or attorneys). We also do not pay any person or firm commissions or other items of material value for referring clients to us.

We receive support products and services from Schwab that are available to other independent investment advisors that maintain client accounts at Schwab. These products and services, how they benefit us, and the related conflicts of interest are described above in Item 12 – Brokerage Practices. The availability of Schwab’s products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

#### **Item 15 – Custody**

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client’s investment assets. Most custodians provide monthly statements to clients. We urge you to carefully review your statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Under government regulations, we are deemed to have custody of your assets if you authorize us to instruct your custodian to deduct our advisory fees directly from your account, but your custodians maintain actual custody of your assets.



## **Item 16 – Investment Discretion**

Our investment authority is seldom discretionary. When we do accept discretion from clients, we require it be made in writing outlining the conditions of our authority. The Firm does, however, routinely obtain trading authority pursuant to Limited Powers of Attorney in which clients authorize us to order execution of trades after approval from the client.

When selecting securities and determining amounts, the Firm observes the investment policies, limitations and restrictions of the clients for which it advises.

## **Item 17 – Voting Client Securities**

We may provide advice to clients regarding the clients' voting of proxies, but as a matter of policy and practice, the Firm does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios and will receive proxy materials from the custodian.

## **Item 18 – Financial Information**

Registered investment advisors are required in this Item to provide you with certain financial information or disclosures about the Firm's financial condition. We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to clients and have not been the subject of a bankruptcy proceeding.