

**Item 1: Cover Page**  
**Part 2A of Form ADV: Firm Brochure**  
**July 2014**

# **Kernodle & Katon**

**Tax and Asset Management Group**

**515 S Main Street, Searcy, AR 72143**

**[www.KernodleKaton.com](http://www.KernodleKaton.com)**

**Firm Contact:**  
**Benjamin Katon**  
**Chief Compliance Officer**

This brochure provides information about the qualifications and business practices of Kernodle & Katon Asset Management Group, LLC dba Kernodle & Katon Tax and Asset Management Group ("KKAMG"). If you have any questions about the contents of this brochure, please contact us by telephone at 501-279-0101 or email [advisors@kernodlekaton.com](mailto:advisors@kernodlekaton.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 KKAMG also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Please note that the use of the term "registered investment adviser" and description of KKAMG and/or our associates as "registered" does not imply a certain level of skill or training. You are encouraged to review this Brochure and Brochure Supplements for our firm's associates who advise you for more information on the qualifications of our firm and our employees.

## **Item 2: Material Changes to Our Part 2A of Form ADV: Firm Brochure**

KKAMG is required to advise you of any material changes to our Firm Brochure ("Brochure") from our last annual update, identify those changes on the cover page of our Brochure or on the page immediately following the cover page, or in a separate communication accompanying our Brochure.

Since our last annual amendment filing on February 4, 2014, the following changes have been made:

- We have updated the outside business activities of our firm. Please see Item 10 for more information.
- In addition to Kernodle & Katon Asset Management Group, LLC our firm is also doing business as Kernodle & Katon Tax and Asset Management Group.

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## Item 4: Advisory Business

We specialize in the following types of services: Wrap Asset Management, Wrap Comprehensive Portfolio Management and Financial Planning & Consulting. Our assets under management are \$105,194,221 as of December 31, 2013.

A. Description of our advisory firm, including how long we have been in business and our principal owner(s)<sup>1</sup>.

We are dedicated to providing individuals and other types of clients with a wide array of investment advisory services. Our firm is a corporation formed in the State of Arkansas. Our firm has been in business as an investment adviser since 2012 and is equally owned by Benjamin Katon and Jeffery Kernodle.

B. Description of the Types of Advisory Services We Offer.

**Wrap Asset Management & Wrap Comprehensive Portfolio Management:**

We offer Asset Management and Comprehensive Portfolio Management services through wrapped accounts only. Please see our separate Wrap Fee Program Brochure for complete information regarding this advisory service.

**Financial Planning & Consulting:**

We provide a variety of financial planning and consulting services to individuals, families and other clients regarding the management of their financial resources based upon an analysis of the client's current situation, goals, and objectives. Generally, such financial planning services will involve preparing a financial plan or rendering a financial consultation for clients based on the client's financial goals and objectives. This planning or consulting may encompass one or more of the following areas: Investment Planning, Retirement Planning, Estate Planning, Charitable Planning, Education Planning, Corporate and Personal Tax Planning, Cost Segregation Study, Corporate Structure, Real Estate Analysis, Mortgage/Debt Analysis, Insurance Analysis, Lines of Credit Evaluation, Business and Personal Financial Planning.

Our written financial plans or financial consultations rendered to clients usually include general recommendations for a course of activity or specific actions to be taken by the clients. For example, recommendations may be made that the clients begin or revise investment programs, create or revise wills or trusts, obtain or revise insurance coverage, commence or alter retirement savings, or establish education or charitable giving programs. It should also be noted that we refer clients to an accountant, attorney or other specialist, as necessary for non-advisory related services. For written financial planning engagements, we provide our clients with a written summary of their financial situation, observations, and recommendations. For financial consulting engagements, we usually do not provide our clients with a written

<sup>1</sup> Please note that: (1) For purposes of this item, our principal owners include the persons we list as owning 25% or more of our firm on Schedule A of Part 1A of Form ADV (Ownership Codes C, D or E). (2) If we are a publicly held company without a 25% shareholder, we simply need to disclose that we are publicly held. (3) If an individual or company owns 25% or more of our firm through subsidiaries, we must identify the individual or parent company and intermediate subsidiaries. If we are a state-registered adviser, on Form ADV Part 2A Page 2, we must identify all intermediate subsidiaries. If we are an SEC-registered adviser, we must identify intermediate subsidiaries that are publicly held, but not other intermediate subsidiaries.

summary of our observations and recommendations as the process is less formal than our planning service. Plans or consultations are typically completed within six (6) months of the client signing a contract with us, assuming that all the information and documents we request from the client are provided to us promptly. Implementation of the recommendations will be at the discretion of the client.

- C. Explanation of whether (and, if so, how) we tailor our advisory services to the individual needs of clients, whether clients may impose restrictions on investing in certain securities or types of securities.

We offer individualized investment advice to clients utilizing our Wrap Asset Management and Wrap Comprehensive Portfolio Management. Additionally, we offer general investment advice to clients utilizing our Financial Planning & Consulting services.

Each client has the opportunity to place reasonable restrictions on the types of investments to be held in the portfolio. Restrictions on investments in certain securities or types of securities may not be possible due to the level of difficulty this would entail in managing the account. Restrictions would be limited to our Wrap Asset Management and Wrap Comprehensive Portfolio Management. We do not manage assets through our other services.

- D. Participation in Wrap Fee Programs.

We only offer wrap fee programs as further described in Part 2A, Appendix 1 (the "Wrap Fee Program Brochure") of our Brochure. Our wrap fee accounts are managed on an individualized basis according to the client's investment objectives, financial goals, risk tolerance, etc. As further described in our Wrap Fee Program Brochure, we receive a portion of the wrap fee for our services.

- E. Disclosure of the amount of client assets we manage on a discretionary basis and the amount of client assets we manage on a non-discretionary basis as of December 31, 2013.

We manage<sup>2</sup> \$99,919,451 on a discretionary and \$5,274,770 on a non-discretionary basis.

## Item 5: Fees & Compensation

- A. Description of How We Are Compensated for Our Advisory Services Provided to You.

### **Wrap Asset Management & Wrap Comprehensive Portfolio Management:**

Please see our Wrap Fee Program Brochure.

<sup>2</sup> Please note that our method for computing the amount of "client assets we manage" can be different from the method for computing "assets under management" required for Item 5.F in Part 1A of Form ADV. However, we have chosen to follow the method outlined for Item 5.F in Part 1A of Form ADV. If we decide to use a different method at a later date to compute "client assets we manage," we must keep documentation describing the method we use and inform you of the change. The amount of assets we manage may be disclosed by rounding to the nearest \$100,000. Our "as of" date must not be more than three months before the date we last updated our Brochure in response to Item 4.E of Form ADV Part 2A.

**Financial Planning & Consulting:**

We charge on an hourly or flat fee basis for financial planning and consulting services. The total estimated fee, as well as the ultimate fee that we charge you, is based on the scope and complexity of our engagement with you. Our hourly fees are \$350 for financial advisors, \$150 per hour for para-planners and \$75 for administrative time. Flat fees generally range from \$1,500 to \$10,000.

B. Description of Whether We Deduct Fees From Clients' Assets or Bill Clients For Fees Incurred.

**Wrap Asset Management & Wrap Comprehensive Portfolio Management:**

Please see our Wrap Fee Program Brochure.

**Financial Planning & Consulting:**

We require a retainer of fifty-percent (50%) of the ultimate financial planning or consulting fee with the remainder of the fee directly billed to you and due to us within thirty (30) days of your financial plan being delivered or consultation rendered to you. In all cases, we will not require a retainer exceeding \$500 when services cannot be rendered within 6 (six) months.

C. Description of any other types of fees or expenses clients may pay in connection with our advisory services, such as custodian fees or mutual fund expenses.

Wrap fee clients will receive our Form ADV, Part 2A, Appendix 1 (the "Wrap Fee Program Brochure"). Wrap fee clients will not incur transaction costs for trades. More information about this is disclosed in our separate Wrap Fee Program Brochure.

D. We must disclose if client's advisory fees are due quarterly in advance. Explain how a client may obtain a refund of a pre-paid fee if the advisory contract is terminated before the end of the billing period. Explain how you will determine the amount of the refund.

We charge our advisory fees monthly in advance. In the event that you wish to terminate our services, we will refund the unearned portion of our advisory fee to you. Our firm's earned, pro-rated fees will be calculated based on the percentage of days that services were provided during the calendar month multiplied by the average daily balance during the portion of the calendar month that services were provided (the beginning of the quarter through the termination date). You need to contact us in writing and state that you wish to terminate our services. Upon receipt of your letter of termination, we will proceed to close out your account and process a pro-rata refund of unearned advisory fees.

E. Commissionable Securities Sales.

In order to sell securities for a commission, our supervised persons are registered representatives of Purshe Kaplan Sterling Investments, Inc. ("PKS"), member FINRA/SIPC. Our supervised persons may accept compensation for the sale of securities or other investment products, including distribution or service ("trail") fees from the sale of mutual funds. You should be aware that the practice of accepting commissions for the sale of securities:

1. Presents a conflict of interest and gives our firm and/or our supervised persons an incentive to recommend investment products based on the compensation received, rather than on your needs. We generally address commissionable sales conflicts that arise when explaining to clients that commissionable securities sales creates an incentive to recommend products based on the compensation we and/or our supervised persons may earn and may not necessarily be in the best interests of the client or when recommending commissionable mutual funds, explaining that “no-load” funds are also available.
2. In no way prohibits you from purchasing investment products recommended by us through other brokers or agents which are not affiliated with us.

### **Item 6: Performance-Based Fees & Side-By-Side Management**

We do not charge performance fees to our clients.

### **Item 7: Types of Clients & Account Requirements**

We have the following types of clients:

- Individuals and High Net Worth Individuals;
- Pension and Profit Sharing Plans; and
- Corporations, Limited Liability Companies and/or Other Business Types.

We do not have requirements for opening and maintaining accounts or otherwise engaging us.

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

#### **Methods of Analysis:**

- **Charting:** In this type of technical analysis, we review charts of market and security activity in an attempt to identify when the market is moving up or down and to predict when how long the trend may last and when that trend might reverse.
- **Cyclical Analysis:** In this type of technical analysis, we measure the movements of a particular stock against the overall market in an attempt to predict the price movement of the security.
- **Fundamental Analysis:** We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell). Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

- **Technical Analysis:** We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement. Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement.

#### **Investment Strategies We Use:**

- **Long-Term Purchases:** When utilizing this strategy, we may purchase securities with the idea of holding them for a relatively long time (typically held for at least a year). A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantages of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell. Typically we employ this sub-strategy when we believe the securities to be well valued; and/or we want exposure to a particular asset class over time, regardless of the current projection for this class.
- **Short-Term Purchases:** When utilizing this strategy, we may also purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.
- **Trading:** We purchase securities with the idea of selling them very quickly (typically within 30 days or less). We do this in an attempt to take advantage of our predictions of brief price swings.
- **Short Sales:** We borrow shares of a stock for your portfolio from someone who owns the stock on a promise to replace the shares on a future date at a certain price. Those borrowed shares are then sold. On the agreed-upon future date, we buy the same stock and return the shares to the original owner. We engage in short selling based on our determination that the stock will go down in price after we have borrowed the shares. If we are correct and the stock price has gone down since the shares were purchased from the original owner, the client account realizes the profit.

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

#### **Item 9: Disciplinary Information**

There are no legal or disciplinary events that are material to the evaluation of our advisory business or the integrity of our management.



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

Representatives of our firm are registered representatives of PKS, member FINRA/SIPC. They may offer securities and receive normal and customary commissions as a result of securities transactions. A conflict of interest may arise as these commissionable securities sales may create an incentive to recommend products based on the compensation they may earn.

Representatives of our firm are insurance agents/brokers. They may offer insurance products and receive normal and customary fees as a result of insurance sales. A conflict of interest may arise as these insurance sales may create an incentive to recommend products based on the compensation adviser and/or our supervised persons may earn.

Representatives of our firm may be Certified Public Accountants or Enrolled Agents. In such capacity, they may also provide income tax preparation or accounting services. These services are independent of our financial planning and investment advisory services and are governed under a separate engagement agreement. The fees for these services are billed hourly and are in addition to our firm's advisory fees. The hourly rate varies depending on the complexity of the work conducted. Clients are under no obligation to engage our firm for tax preparation or accounting services.

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

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

Therefore, in order to prevent conflicts of interest, we have in place a set of procedures (including a pre-clearing procedure) with respect to transactions effected by our members, officers and employees for their personal accounts<sup>3</sup>. In order to monitor compliance with our personal trading policy, we have a quarterly securities transaction reporting system for all of our associates.

Furthermore, our firm has established a Code of Ethics which applies to all of our associated persons. An investment adviser is considered a fiduciary. As a fiduciary, it is an investment adviser's responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our clients at all times. We have a fiduciary duty to all clients. Our fiduciary duty is considered the core underlying principle for our Code of Ethics which also includes Insider Trading and Personal Securities Transactions Policies and Procedures. We require all of our supervised persons to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. Upon employment or affiliation and at least annually thereafter, all supervised persons will sign an acknowledgement that they have read, understand, and agree to

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<sup>3</sup> For purposes of the policy, our associate's personal account generally includes any account (a) in the name of our associate, his/her spouse, his/her minor children or other dependents residing in the same household, (b) for which our associate is a trustee or executor, or (c) which our associate controls, including our client accounts which our associate controls and/or a member of his/her household has a direct or indirect beneficial interest in.

comply with our Code of Ethics. Our firm and supervised persons must conduct business in an honest, ethical, and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients. This disclosure is provided to give all clients a summary of our Code of Ethics. If a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided promptly upon request.

Our advisory representative may in whole or in part replicate our proprietary strategies for their own personal accounts. To mitigate any conflict of interest the interests of the clients are put before those of our representatives.

Related persons of our firm may buy or sell securities and other investments that are also recommended to clients. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics, a copy of which is available upon request.

Related persons of our firm may buy or sell securities for themselves at or about the same time they buy or sell the same securities for client accounts. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics, a copy of which is available upon request. Further, our related persons will refrain from buying or selling the same securities within 48 hours prior to buying or selling for our clients. If related persons' accounts are included in a block trade, our related persons will always trade personal accounts last

## **Item 12: Brokerage Practices**

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

- Ability to maintain the confidentiality of trading intentions
- Timeliness of execution
- Timeliness and accuracy of trade confirmations
- Liquidity of the securities traded
- Willingness to commit capital
- Ability to place trades in difficult market environments
- Research services provided
- Ability to provide investment ideas
- Execution facilitation services provided
- Record keeping services provided
- Custody services provided
- Frequency and correction of trading errors
- Ability to access a variety of market venues
- Expertise as it relates to specific securities
- Financial condition
- Business reputation

With this in consideration, our firm has an arrangement with Charles Schwab & Co., Inc. ("Schwab"). Schwab offers to independent investment advisers non-soft dollar services which include custody of

securities, trade execution, clearance and settlement of transactions. We receive some non-soft dollar benefits from Schwab through our participation in the program. Please see the disclosure under Item 14 of this Brochure.

Schwab may make certain research and brokerage services available at no additional cost to our firm. These services may be directly from independent research companies, as selected by our firm (within specific parameters). Research products and services provided by Schwab may include research reports on recommendations or other information about, particular companies or industries; economic surveys, data and analyses; financial publications; portfolio evaluation services; financial database software and services; computerized news and pricing services; quotation equipment for use in running software used in investment decision-making; and other products or services that provide lawful and appropriate assistance by Schwab to our firm in the performance of our investment decision-making responsibilities.

We do not use client brokerage commissions to obtain research or other products or services. The aforementioned research and brokerage services are used by our firm to manage accounts for which we have investment discretion. Without this arrangement, our firm might be compelled to purchase the same or similar services at our own expense.

As a result of receiving the services discussed in 12A.1, we may have an incentive to continue to use or expand the use of Schwab services. Our firm examined this potential conflict of interest when we chose to enter into the relationship with Schwab and we have determined that the relationship is in the best interest of our firm's clients and satisfies our fiduciary obligations, including our duty to seek best execution.

Schwab charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions). Schwab enables us to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Schwab commission rates are generally discounted from customary retail commission rates. The commission and transaction fees charged by Schwab may be higher or lower than those charged by other custodians and broker-dealers.

**Brokerage for Client Referrals:**

Our firm does not receive brokerage for client referrals.

**Directed Brokerage:**

In certain instances, clients may seek to limit or restrict our discretionary authority in making the determination of the brokers with whom orders for the purchase or sale of securities are placed for execution, and the commission rates at which such securities transactions are effected. Clients may seek to limit our authority in this area by directing that transactions (or some specified percentage of transactions) be executed through specified brokers in return for portfolio evaluation or other services deemed by the client to be of value. Any such client direction must be in writing (often through our advisory agreement), and may contain a representation from the client that the arrangement is permissible under its governing laws and documents, if this is relevant.

We provide appropriate disclosure in writing to clients who direct trades to particular brokers, that with respect to their directed trades, they will be treated as if they have retained the investment

discretion that we otherwise would have in selecting brokers to effect transactions and in negotiating commissions and that such direction may adversely affect our ability to obtain best price and execution. In addition, we will inform you in writing that your trade orders may not be aggregated with other clients' orders and that direction of brokerage may hinder best execution.

### **Special Considerations for ERISA Clients**

A retirement or ERISA plan client may direct all or part of portfolio transactions for its account through a specific broker or dealer in order to obtain goods or services on behalf of the plan. Such direction is permitted provided that the goods and services provided are reasonable expenses of the plan incurred in the ordinary course of its business for which it otherwise would be obligated and empowered to pay. ERISA prohibits directed brokerage arrangements when the goods or services purchased are not for the exclusive benefit of the plan. Consequently, we will request that plan sponsors who direct plan brokerage provide us with a letter documenting that this arrangement will be for the exclusive benefit of the plan.

### **Aggregation of Purchase or Sale:**

We perform investment management services for various clients. There are occasions on which portfolio transactions may be executed as part of concurrent authorizations to purchase or sell the same security for numerous accounts served by our firm, which involve accounts with similar investment objectives. Although such concurrent authorizations potentially could be either advantageous or disadvantageous to any one or more particular accounts, they are affected only when we believe that to do so will be in the best interest of the effected accounts. When such concurrent authorizations occur, the objective is to allocate the executions in a manner which is deemed equitable to the accounts involved. In any given situation, we attempt to allocate trade executions in the most equitable manner possible, taking into consideration client objectives, current asset allocation and availability of funds using price averaging, proration and consistently non-arbitrary methods of allocation.

## **Item 13: Review of Accounts or Financial Plans**

We review accounts on at least a quarterly basis for our clients subscribing our Wrap Asset Management and Wrap Comprehensive Portfolio Management services. The nature of these reviews is to learn whether clients' accounts are in line with their investment objectives, appropriately positioned based on market conditions, and investment policies, if applicable. We do not provide written reports to clients, unless asked to do so. Verbal reports to clients take place on at least an annual basis when we contact clients who subscribe our Wrap Asset Management and Wrap Comprehensive Portfolio Management services.

Only our Financial Advisors or Portfolio Managers will conduct reviews. We may review client accounts more frequently than described above. Among the factors which may trigger an off-cycle review are major market or economic events, the client's life events, requests by the client, etc.

Financial Planning clients do not receive reviews of their written plans unless they take action to schedule a financial consultation with us. We do not provide ongoing services to financial planning clients, but are willing to meet with such clients upon their request to discuss updates to their plans, changes in their circumstances, etc. Financial Planning clients do not receive written or

verbal updated reports regarding their financial plans unless they separately contract with us for a post-financial plan meeting or update to their initial written financial plan.

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

Our firm may recommend that clients establish brokerage accounts with Schwab to maintain custody of Clients' assets and to effect trades for their accounts. Our firm is independently owned and operated and not affiliated with Schwab. Our firm may also recommend that Clients establish accounts with firms other than Schwab.

Our firm places trades for its Clients' accounts subject to its duty to seek best execution and its other fiduciary duties. Our firm may use broker-dealers other than Schwab to execute trades for client accounts maintained at Schwab, but this practice may result in additional costs to clients so that we are more likely to place trades through Schwab rather than other broker-dealers. Schwab's execution quality may be different than other broker-dealers. For our client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by account holders through commissions or other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Some of the products, services and other benefits provided by Schwab benefit us and may not benefit our firm's client accounts. Our recommendation that a client place assets in Schwab's custody may be based in part on benefits Schwab provides to us, and not solely on the nature, cost or quality of custody and execution services provided by Schwab.

Schwab also makes available to our firm other products and services that benefit us but may not benefit clients' accounts. These benefits may include national, regional or specific to our firm, educational events organized and/or sponsored by Schwab Institutional. Other potential benefits may include occasional business entertainment of personnel of our firm by Schwab Institutional personnel, including meals, invitations to sporting events, including golf tournaments, and other forms of entertainment, some of which may accompany educational opportunities. Other of these products and services assist us in managing and administering clients' accounts. These include software and other technology (and related technological training) 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 research, pricing information and other market data, facilitate payment of our fees from its clients' accounts, and assist with back-office training and support functions, recordkeeping and client reporting. Many of these services generally may be used to service all or some substantial number of our firm's accounts, including accounts not maintained at Schwab Institutional. Schwab Institutional also makes available to us other services intended to help our firm manage and further develop its business enterprise. These services may include professional compliance, legal and business consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, employee benefits providers, human capital consultants, insurance and marketing. In addition, Schwab may make available, arrange and/or pay vendors for these types of services rendered to our firm by independent third parties. Schwab Institutional may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to us. While, as a fiduciary, Our firm endeavors to act in its clients' best interests, our recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefit to our firm of the availability of

some of the foregoing products and services and other arrangements and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest. But for soft dollar arrangements, we would have to obtain the aforementioned services and products for cash. As a result of receiving such products and services for no cost, we may have an incentive to continue to place Client trades through broker-dealers that offer soft dollar arrangements. This interest conflicts with the Clients' interest of obtaining the lowest commission rate available. Therefore, our firm must determine in good faith, based on the "best execution" policy stated above that such commissions are reasonable in relation to the value of the services provided by such executing broker-dealers.

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

We may pay referral fees (non-commission based) to independent solicitors (non-registered representatives) for the referral of their clients to our firm in accordance with Rule 206 (4)-3 of the Investment Advisers Act of 1940. Such referral fee represents a share of our investment advisory fee charged to our clients. This arrangement will not result in higher costs to you. In this regard, we maintain Solicitors Agreements in compliance with Rule 206 (4)-3 of the Investment Advisers Act of 1940 and applicable state and federal laws. All clients referred by Solicitors to our firm will be given full written disclosure describing the terms and fee arrangements between our firm and Solicitor(s). In cases where state law requires licensure of solicitors, we ensure that no solicitation fees are paid unless the solicitor is registered as an investment adviser representative of our firm. If we are paying solicitation fees to another registered investment adviser, the licensure of individuals is the other firm's responsibility.

### **Item 15: Custody**

All of our clients receive at least quarterly account statements directly from their custodians. Upon opening an account with a qualified custodian on a client's behalf, we promptly notify the client in writing of the qualified custodian's contact information. If we decide to also send account statements to clients, such notice and account statements include a legend that recommends that the client compare the account statements received from the qualified custodian with those received from our firm.

We encourage our clients to raise any questions with us about the custody, safety or security of their assets. The custodians we do business with will send you independent account statements listing your account balance(s), transaction history and any fee debits or other fees taken out of your account.

### **Item 16: Investment Discretion**

Our clients need to sign a discretionary investment advisory agreement with our firm for the management of their account. This type of agreement only applies to our Asset Management and Comprehensive Portfolio Management clients. We do not take or exercise discretion with respect to our other clients.

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

We do not and will not accept the proxy authority to vote client securities. Clients will receive proxies or other solicitations directly from their custodian or a transfer agent. In the event that proxies are sent to our firm, we will forward them on to you and ask the party who sent them to mail them directly to you in the future. Clients may call, write or email us to discuss questions they may have about particular proxy votes or other solicitations.

### **Item 18: Financial Information**

We are not required to provide financial information in this Brochure because:

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

We have never been the subject of a bankruptcy proceeding.