

As filed with the Securities and Exchange Commission on March 31, 2015

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SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

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Form ADV Part 2A

*under*

*The Investment Advisors Act of 1940*

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ADVISORS  
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HARRIS FINANCIAL ADVISORS, INC.

*Established 1992*

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This brochure provides information about the qualifications and business practices of Harris Financial Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at: (310) 791-3226, or by email at: [hfa@harrisfinancial.net](mailto:hfa@harrisfinancial.net). 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 Harris Financial Advisors, Inc. is available on the SEC's website at [http://www.adviserinfo.sec.gov/IAPD/Content/IapdMain/iapd\\_SiteMap.aspx](http://www.adviserinfo.sec.gov/IAPD/Content/IapdMain/iapd_SiteMap.aspx)

## Item 2 - Material Changes

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The Material Changes section of our brochure will be updated at least annually or when material changes occur from the previous release of our Firm Brochure.

We have not had any material changes since our last brochure update dated March 28, 2014.



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## Item 4 - Advisory Business

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### A) Description of Firm

Harris Financial Advisors, Inc. ("HFA"), founded in 1992, is an independent, fee-based wealth management firm. We manage investment portfolios and provide financial planning services to individuals, families, trusts, and charitable organizations. Our clients benefit from the personal attention and individual perspectives of our team of wealth managers.

Our fee-based structure means that we do not earn commissions on investments purchased for our clients but rather are paid by applying a management fee percentage to the balance of assets under our management. This arrangement eliminates bias in selecting investments for our clients and discourages unnecessary trading. Approximately 98% of our annual revenue is earned from these management fees while the balance of our revenue comes from insurance product sales to existing clients only.

Our comprehensive financial services include investment portfolio design, investment implementation and investment management. In addition, we prepare financial plans for our clients and work with our clients' accountants regarding tax matters and their estate planning attorneys regarding estate-related matters. The management fee assessed on client assets under management pays for all of our services; we normally do not charge hourly or additional client fees.

Our process for accepting new clients has several steps. The initial meeting, either in person or by telephone, is free of charge. We consider this meeting an exploratory interview to understand the situation, goals, and objectives of the prospective client ("prospect"). We gather information including the prospect's assets, liabilities, income, insurances, estate planning, and risk tolerance. We use this information to evaluate whether we can assist the prospect in meeting their goals.

Following the initial meeting, our team of advisors meets to review the information gathered and to decide whether to move forward with another meeting. If the advisory arrangement seems mutually suitable, we schedule a second meeting during which we present our written Investment Policy Statement ("IPS"). The IPS documents our understanding of the prospect's unique situation and objectives as well as our asset allocation recommendation and implementation steps for the investment portfolio.

During our third meeting with the prospect, we review and discuss all documents previously provided. If the prospect chooses to move forward with an advisory relationship, then he or she signs the Investment Policy Statement and advisory agreements to become a client of our firm.

For each new client, we assist in establishing accounts with our investment custodian, Charles Schwab and Co., Inc. ("Schwab"). These accounts are registered to and owned by the client. As the advisor on our clients' accounts, we have authority to buy and sell investments in their accounts and to transfer funds to the client or to other recipients as directed by the client. Once accounts have been established with Schwab, we facilitate the asset transfer process and begin implementation of the investment portfolio.

We maintain liquid funds in the form of money market accounts and money market mutual funds within client accounts. Our clients have access to their funds at all times. The clients can write checks or call us to transfer funds electronically between accounts or send funds to outside bank accounts. Additionally, funds can be viewed 24 hours a day, 7 days a week online at [www.schwaballiance.com](http://www.schwaballiance.com) or by contacting Schwab by telephone or visiting any Schwab branch office.

We collect current estate planning documents such as trusts, wills, insurance policies and durable powers of attorney for health and financial matters. We evaluate current income tax returns for potential planning strategies. Though we do not prepare tax returns or legal documents, we often work with our clients' tax and legal professionals to identify and implement appropriate strategies.

For each client, we maintain an informational summary document called the Annual Financial Checkup that documents the following current information: tax and legal professionals, account beneficiaries, status of estate planning documents, insurance coverage and tolerance for portfolio volatility. We review this information with each client periodically, and the client signs to confirm the accuracy.

We periodically provide a Balance Sheet to the client that we generate from our client relationship management system and from information provided by the client. The Balance Sheet contains only approximate bank account balances, land values, and hard-to-price real estate holdings.

At the client's request, we provide advice on accounts not managed by HFA (e.g. client's 529 plan, 401(k), 403(b), and other qualified or non-qualified plans). We provide this advice on a periodic and non-continuous basis. It is the client's responsibility to act on the recommendations we provide and to initiate a request for each review. We do not act as a sponsor and we do not provide investment advice to a WRAP program.

We offer financial plans to clients who desire this analysis. (See Item 4, page 4 for a full discussion of this analysis.)

HFA is committed to safeguarding the privacy and confidentiality of our clients' personal information. We hold and protect personal client information provided to our firm in the highest confidence. The client receives a copy of our privacy policy prior to or at the time he or she becomes a client. Thereafter, we deliver the current privacy policy notice to all clients on an annual basis.

Mary Harris is currently a 100% shareholder of HFA. As of December 31, 2014, HFA managed \$ 343 million in assets for 332 clients. Of this total amount, we managed \$ 329 million on a discretionary basis and \$ 14 million on a non-discretionary basis.

## **B) Types of Agreements:**

The following types of agreements define typical client relationships:

### **1) Investment Policy Statement ("IPS")**

Each client has a unique Investment Policy Statement ("IPS"), which outlines his or her stated goals and objectives.

The IPS outlines the client's unique current circumstances, goals and objectives, income and liquidity requirements, risk tolerance, time horizon, tax issues, portfolio allocation (ratio of equity to fixed income and cash), unique preferences, and implementation steps. We manage and direct the client's investments in accordance with this document.

The IPS may be amended at any time at the client's request. This IPS amendment usually reflects a change in portfolio allocation from the prior IPS.

### **2) Investment Advisory Agreement ("IAA")**

Each client using our investment advisory services executes an Investment Advisory Agreement ("IAA"). This agreement covers our primary business, the management of client assets.

The IAA includes the types of accounts to be established, the primary account holder(s), affiliations with publicly traded companies or securities firms, income, reinvestment preferences, and investor risk profile. In addition, the scope of work, our investment advisory compensation process, and fee schedules are discussed.

We invest client assets primarily in no-load mutual funds and exchange-traded funds primarily through Schwab. Schwab may charge a transaction fee for the purchase of some funds; HFA does not share in this transaction fee. If the portfolio includes a variable annuity, HFA uses a no-load (no commission is charged) variable annuity from Jefferson National Insurance Co. or other companies with no-load products.

We may purchase or sell stocks and bonds through a brokerage account when appropriate. The brokerage firm (e.g. Schwab) charges a fee for stock and bond trades. HFA does not receive any part of this transaction fee.

The IAA has information regarding:

**a) Services to be Rendered**

- How advice is guided by the IAA and the Investment Policy Statement
- Client statements: Schwab provides monthly; HFA provides quarterly

**b) Client Undertakings**

- Minimum account size
- Withdrawal of assets by client
- Client notifies HFA if change in objectives or risk tolerance
- Client to secure own legal and tax advice
- Discussion of account owner rights

**c) Compensation and Other Costs**

- HFA management fee (See Item 5 below – Fees and Compensation)
- Schwab account maintenance and trading fees

**d) Risk Disclosures**

- No guarantee of results; no use of inside information

**e) Dispute Resolution**

- Resolution through discussions, mediation then arbitration

**f) Miscellaneous Provisions**

- Governed by State of CA
- Termination of agreement
- Amendment and assignment only in writing by both parties
- Acknowledgement of receipt of ADV Part 2A & Part 2B and Privacy Policy

## **C) Financial Planning Services and Agreement**

Our normal practice is to offer financial planning services only to our investment management clients. We do not charge a separate fee to prepare or update a financial plan if we manage \$1 million or more for the client.

If we manage less than \$1 million and the client desires to have a plan prepared or updated by HFA, we may charge a fee to prepare such plan based on an hourly rate of \$250 per hour. The Financial Planning Agreement, which is signed by the client, defines the services provided, scope of the work and fee. We will bill future plan revisions at an agreed upon fee. The client has no obligation to act on the recommendations presented in the financial plan.

If a prospective client requests a financial plan and intends to place assets of \$1M or more under HFA's management within a 12-month period, we will charge for the plan preparation upon completion and will later credit this plan fee against the asset management fee. If future assets under management are less than \$1M within a 12-month period, the plan fee will not be credited back to the client. Our billing rate for plans is typically \$250 per hour of work.

Financial planning may be the only service provided to the client; HFA does not require that the client use or purchase investment advisory services offered by HFA or any insurance products or other services offered by HFA. There is an inherent conflict of interest for HFA whenever a financial plan recommends use of professional investment management services or the purchase of insurance products or other financial products or services. HFA or its associated persons may receive compensation for financial planning and the provision of investment management services and/or the sale of insurance and other products and services. However, the client is under no obligation to accept any of HFA's recommendations or use the services of HFA. See Item 10 for a discussion of conflict of interest.

We design plans to help the client with aspects of financial planning beyond the area of investment advice. Implementation of recommendations made as a result of a financial plan is at the discretion of the client.



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Our plans incorporate assets and liabilities (balance sheet), as well as current and projected income and expenses. This data allows us to project required savings or guidelines for spending, depending on client needs. The plan addresses the specific situation of the client such as retirement or education funding, gifting and estate strategies, strategic tax planning, and scenarios modeling the purchase or sale of real estate or other assets.

The client understands that future events could prevent the attainment of their goals and objectives. If negative circumstances arise, we encourage the client to have their financial plan revised. Other significant changes which may trigger a plan revision include: retirement, change in marital or health status, real estate purchase or sale, death of spouse, increase in expenses and decline in assets. Future plan revisions are prepared at the request of the client and billed at our hourly rate.

If, for any reason, the client terminates or we terminate the Financial Planning Agreement before the delivery of the plan or the plan revision, we will refund the financial planning fee paid by the client. Financial planning fees are negotiable.

Future plan reviews and updates are at the request of the client.

## D) Insurance Services

Some firm members are licensed with the CA Department of Insurance for Life and Health and can assist with the discovery and implementation of client insurance needs. Mary Harris places policies that are written for our clients through her state insurance license (CA License #0661441).

Our practice limits the sale of insurance products to our existing clients (we do not respond to insurance inquiries from the general public). We limit the types of insurance products to long-term care coverage and life insurance.

Mary Harris is licensed with a number of companies that provide life and long-term-care insurance coverage. A product of one of these companies may be recommended. If the client purchases an insurance product through HFA, Mary Harris receives a commission from the insurance company. Thus a conflict of interest exists between Mary Harris and our advisory clients. The client has no obligation to purchase any recommended product through Mary Harris or through recommended insurance companies.

We do not make recommendations on other types of insurance, including: group coverage, health, disability, Medicare supplements, automobile, homeowners, renters, umbrella, commercial and all other property/casualty coverage. These coverage types need to be obtained from a licensed professional who specializes in these areas. We may provide outside referrals for these services at client's request

## Item 5 - Fees and Compensation

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HFA calculates its management fee as a percentage of assets under management.

### A) Basic Fee Schedules

#### 1) Assets Under Management greater than \$1,000,000

Management fees are billed quarterly, in advance, as follows:

<u>Portfolio Value</u>	<u>Per Annum</u>
First \$2,000,000	1.00%
Next \$2,000,000 to \$ 5,000,000	0.75%
Next \$5,000,000 and above	0.50%



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## 2) Assets Under Management less than \$1,000,000

Prospective clients with less than \$1,000,000 of assets under management may be accepted under special circumstances. Management fees are billed quarterly, in advance, as follows:

<u>Portfolio Value</u>	<u>Per Annum</u>
First \$500,000	1.50%
Next \$500,000 to \$999,999	1.25%

At the discretion of advisor, different fees may be charged. Current client relationships may exist where the fees are higher or lower than the fee schedule above. Fees are negotiable.

We combine the account values of family members living in the same household to determine the applicable advisory fee. For example, we may combine account values for the client and spouse, their minor children, and other types of related accounts. Combining the account values may increase the asset total, which may result in the client(s) paying reduced advisory fees.

Schwab makes fee payments directly to HFA from the client's Schwab account. The following must occur before Schwab makes a payment from the client's account:

- The client provides written authorization for automatic payment of HFA's management fee
- HFA sends the client a copy of the invoice with detail of fee calculation

HFA predominantly recommends mutual funds and exchange-traded funds (ETFs) for client portfolios. Mutual funds and ETFs generally charge a management fee for their services as investment managers. The management fee (also called internal expense ratio) is deducted directly from the fund assets by the fund management company. For example, a \$50,000 investment in a fund with an internal expense ratio of 0.30% means the fund management company deducts \$150 annually from the fund's assets. We strive to use low, competitively priced funds for client accounts; HFA clients may have access to institutional shares of certain funds that have lower internal expenses than shares available to retail investors. These fund fees are separate and in addition to those fees paid by the client to HFA.

## B) Fee Billing

HFA bills investment management fees quarterly, in advance. For example, for the first quarter of the year (January 1st – March 31<sup>st</sup>), we calculate management fees based on account balances at the end of the previous quarter, December 31st. We submit a request to Schwab for automatic payment by January 20<sup>th</sup>.

At the beginning of the client relationship, we prorate the initial fee from the day of the deposit to the end of the quarter based on the deposit made into the Schwab account multiplied by the appropriate rate.

When the client deposits additional funds, we charge an interim management fee prorated from the day of deposit to the end of the quarter. We only charge the interim fee if it exceeds \$50. We do not normally refund fees during the quarter as a result of client withdrawals.

Upon termination of the client relationship, we will promptly refund any prepaid, unearned management fees.

## C) Custodian Fees

Custodians (e.g. Schwab) may charge transaction fees on purchases or sales of certain mutual funds and exchange-traded funds. We will disclose the dollar amount of these fees once the portfolio composition and specific funds are agreed upon with the client. HFA does not share in these transaction fees.

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

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HFA does not charge performance-based fees to our clients. (These are fees based on a share of capital gains on or capital appreciation of the assets of the client).

## Item 7 - Types of Clients

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HFA provides investment advice to individuals, families, retirement plans, plans, trusts, estates, and charitable organizations.

Our typical client is an individual or family with investable assets of approximately \$1 million. In many instances, our clients' assets have been accumulated in their employee retirement plans or other savings accounts during their working years. Other clients come to us with funds they received from an unexpected life event such as an inheritance, settlement, or divorce.

We may also enter into relationships with clients who have less than this amount. In considering new clients, we evaluate circumstances such as whether they are adding to or withdrawing from savings and other assets that may be available in the future such as real estate, inheritance or retirement accounts.

Our firm has developed an expertise in serving women experiencing a major life transition. These women may have recently retired, become widowed, divorced, sold a business, or received an inheritance. Many of these women have not had previous financial experience. We educate while advising and encourage a high level of personal interaction with these women-in-transition to empower them in their new financial situations.

With a focus on wealth preservation, the relationships we develop with women-in-transition are often life-long and frequently extend to future generations.

## Item 8 - Methods of Analysis, Investment Strategies, Risk of Loss

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### A) Methods of Analysis

We hold regular Investment Committee meetings to discuss current market environments and global situations. The Committee analyzes our portfolios and determines whether specific investments or types of investments should be added or removed.

We primarily use commission-free or "no-load" institutional class mutual funds in our client accounts. Our investment selections may include both passively and actively managed funds depending on the investment objective. We may use exchange-traded funds (ETFs). In limited cases, we manage commission-free or "no-load" variable annuities for some clients, which offer a variety of mutual fund options. We do not make Initial Public Offerings (IPOs) available through our firm. We do not have any requirements to buy mutual funds from specific fund companies.

Mutual funds and ETFs hold investments in many companies, which provide diversification and limits risk. Some mutual funds and ETFs may use derivatives as part of their investment strategy.

To select mutual funds for our clients, we begin with the entire universe of mutual fund investments. We eliminate from our selection any mutual funds that charge sales commissions or "load" fees. We consider fund performance and characteristics relative to benchmarks, management tenure, and fund size. We then select fund shares with the lowest internal management fees, typically institutional class shares, as compared with the higher-cost retail shares.

The information we use to make our investment decisions comes from a variety of sources. We use publicly available data, data that we purchase and data that are made available to us due to our status as an investment advisor. Publicly available data include financial newspapers and industry magazines, research material prepared by others, corporate rating services, annual reports, prospectuses and company press releases. We purchase data through independent research sources such as Morningstar and Advisor's Intelligence.

As an investment advisor, HFA has opportunities to access information from a variety of experts. These opportunities include in-person meetings with investment company representatives for discussions about current investments and strategies, phone conferences and industry-related meetings.

While we primarily invest in mutual funds in client portfolios, we may also offer advice on equities, corporate debt securities, warrants, commercial paper, certificates of deposit, municipal securities, U.S. Government securities and annuities. We may use fundamental analysis as a method of analysis. We may provide advice on investments held in the client's portfolio at the inception of our advisory relationship.

## **B) Investment Strategies**

We believe that investing should involve a long-term view and should not involve a focus on stock picking or market timing. We use a global asset allocation strategy for our client portfolios. This strategy starts with selection of equity asset classes that we believe will capture potential growth while limiting risk of losses. Our fixed income (bond) asset classes often serve to limit portfolio volatility. We may add or eliminate asset classes in our client portfolios based on new information, new opportunities, and market changes.

For each of our chosen asset classes, we then select mutual funds and ETFs that reflect the attributes of the asset class. We decide between passively or actively managed funds, depending on the asset class. A passive fund, typically generated by a computer program, seeks to match the return and risk characteristics of a market segment or index, by mirroring its composition. An active fund employs analysts to perform research and uses independent investment judgment to identify specific investments that may outperform the market. Passively managed funds charge lower internal management fees than actively managed funds.

We select our specific investments using the Methods of Analysis described above.  
(See Item 8 – Methods of Analysis.)

The specific asset allocation for each client's portfolio is based on his or her Investment Policy Statement (IPS). We prepare an IPS for every client. The IPS documents his or her target asset allocation and is based on his or her unique situation and risk tolerance.

The target asset allocation states the percentage of the client's portfolio to be invested in equity (stock) and in fixed income (bonds). For example, the client may have a target asset allocation of 60% equity and 40% fixed income and cash as stated in the client's Investment Policy Statement (IPS). We may change the asset class categories within this target allocation (e.g. U.S. equity, international equity, etc.) as well as the percentage weighting of each asset class category from time to time at our discretion. Additionally, we may add a new asset class category or eliminate an asset class category from the portfolio, as long as we maintain the target asset allocation. We welcome and encourage client inquiries to discuss investment changes.

If changes in the client's circumstances require an adjustment to their target asset allocation, we prepare an IPS Amendment to document the new target asset allocation percentages.

We review client portfolios regularly and identify portfolios that differ significantly from their target asset allocation; we may then rebalance these portfolios back to their target allocation. Rebalancing is a method whereby investments that have increased beyond their target level are sold while investments that have fallen below their targets are bought. This strategy provides discipline to sell highly appreciated investments while buying investments that may have growth potential.

Specifically, for the client portfolios identified that are off their target allocation, we develop trades that consider the impact of income tax, trading fees and legacy assets in order to bring the portfolio back to the target allocation. We then proceed with trading.

In times of extreme market volatility, we may delay the timing of rebalancing of client portfolios to await stability. This delay could result in client portfolio holdings differing from their target allocations by more than a minor amount and this situation would be discussed with the clients.

## C) Risk of Loss

Investing in securities involves risk of loss that the client should be prepared to bear. All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- 1) **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- 2) **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market price increases or decreases.
- 3) **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- 4) **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- 5) **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- 6) **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers. These customers buy electricity regardless of the current economic environment.
- 7) **Income Tax Risk:** Income tax may be due as a result of a sale of an asset in a taxable account. This may be ordinary income tax (on assets held less than one year prior to sale) or long-term capital gain tax at a lower, more favorable rate (on assets held longer than one year). In the management of client assets, we favor total return above income tax considerations. Total return is the return on an investment over a given time period and includes income from dividends and interest and appreciation or depreciation in the price of the security. We strongly recommend that clients consult with their tax advisors on matters regarding taxation.
- 8) **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- 9) **Financial or Credit Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

10)

## Item 9 - Disciplinary Information

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The firm and its employees have not been involved in any legal or disciplinary events related to past or present investment clients.

## Item 10 - Other Financial Industry Activities and Affiliations

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HFA has no other financial industry activities or affiliations to report.

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

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The employees of HFA have committed to a Code of Ethics. Our Code of Ethics includes general requirements that our supervised persons comply with their fiduciary obligations to clients and applicable securities laws. It also contains specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of client information.

HFA and its employees may buy or sell securities for their personal accounts identical to those recommended to and held by clients. Employees may not trade their own securities in a manner that causes conflict with client trades.

The Chief Compliance Officer of HFA is Douglas Kendle. Part of his responsibility is to review the trading activity of all HFA staff members. The goal of this review is to determine and ensure compliance with our Code of Ethics as it relates to our goal of placing client interests as the highest priority. You may obtain a copy of our Code of Ethics by contacting Douglas Kendle at (310) 791-3226 or by email to the following address: [hfa@harrisfinancial.net](mailto:hfa@harrisfinancial.net).

## Item 12 - Brokerage Practices

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### A) The Custodian and Brokers We Use – Directed Brokerage

HFA does not maintain custody of client assets that we manage, although we may be deemed to have custody of client assets if a client gives us authority to withdraw assets from their account (See Item 15 – Custody, below). Client assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank. We require that the client use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, as the qualified custodian.

We are independently owned and operated and are not affiliated with Schwab. Schwab holds the client’s assets in brokerage account(s). Schwab purchases and sells securities when we instruct them to do so. Additionally, the client may purchase and sell securities in his or her account.

While we require that clients use Schwab as custodian/broker, the client decides whether to do so and opens his or her account with Schwab by entering into an account agreement directly with them. We do not open the account for the client, although we may assist the client in doing so. Not all advisors require their clients to use a particular broker-dealer or other custodian selected by the advisor. Even though Schwab maintains the client’s account, we can still use other brokers to execute trades for their account as described below (see “The Client’s Brokerage and Custody Costs”).

### B) How We Select Brokers / Custodians

We seek to use custodians who will hold client assets and execute transactions on terms that are, overall, most advantageous when compared with other available providers and their services. We consider a wide range of factors, including, among others:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for client’s account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (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
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices.
- Reputation, financial strength and stability
- Prior service to us and our other clients
- Availability of other products and services that benefit us, as discussed below (see “Products and Services Available to Us From Schwab”)



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## **C) The Client's Brokerage and Custody Costs**

For our clients' accounts that Schwab maintains, Schwab charges the client commissions on trades that it executes or that settle into the client's Schwab account. In rare trading instances, we use another broker to place trades that settle into the client's Schwab account. We use this trading method only when the overall economics of the trade are more favorable to the client than having Schwab execute the trade. When we use an alternate broker, Schwab charges the client a flat dollar amount as a "prime broker" or "trade away" fee for each trade settled (deposited) into the client's Schwab account. The client pays these fees to Schwab in addition to the commissions or other compensation that the client pays the alternate (executing) broker-dealer.

Because it is normally to the client's advantage not to use an alternate broker, we have Schwab execute most trades for the client's account. We have determined that having Schwab execute most trades is consistent with our duty to seek the "best execution" of the client's trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see "How We Select Brokers/Custodians").

## **D) Products and Services Available to HFA from Schwab**

Schwab Advisor Services™ is Schwab's business unit serving independent investment advisory firms like HFA. They provide HFA and our clients with access to its institutional brokerage—trading, custody, reporting, and related services—many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts, while others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (we don't have to request them) and at no charge to us. A more detailed description of Schwab's support services follows:

### **1) Services That Benefit the Client**

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by clients. Schwab's services described in this paragraph generally benefit the client.

### **2) Services That May Not Directly Benefit the Client**

Schwab makes available to HFA other products and services that benefit HFA but may not directly benefit the client or the client's account. These products and services assist HFA in managing and administering clients' accounts. They include investment research, both Schwab's own and that of third parties. HFA may use this research to service all or a substantial number of clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provides access to client account data, such as account statements, trade confirmations and prospectuses.
- Facilitates trade execution and allocates aggregated trade orders for multiple client accounts
- Provides pricing and other market data
- Facilitates payment of HFA fees from clients' accounts
- Assists with back-office functions, record keeping, and client reporting

### **3) Services That Generally Benefit Only HFA**

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to HFA. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide HFA with other benefits, such as occasional business entertainment of our personnel. HFA does not receive fees or commissions from any of these arrangements.

### **4) Brokerage for Client Referrals**

We have not entered into an agreement with Schwab or any other institution that would require us to reward them with client brokerage in exchange for the referral of clients to HFA.

### **5) Trade Aggregation**

When warranted, we will aggregate stock or ETF trades of various clients into one trade. We do this to ensure fairness to all clients involved in the aggregated trade. Trade aggregation ensures all clients are treated fairly, and that we eliminate possible bias toward certain clients that could occur if we executed individual trades for each client that could favor one client above another.

### **6) Trade Errors**

From time to time, we may make an error in submitting a trade on the client's behalf. A trade error can be favorable or unfavorable to the client.

It is our policy to restore the client's account to the position it should have been had the error not occurred. We may do this by canceling the trade or reimbursing the client account for any loss.

### **7) Cost Basis Reporting**

IRS regulations require that custodians report the cost basis of equity securities acquired on or after January 1, 2011 and mutual funds purchased on or after January 1, 2012. Charles Schwab will automatically use the FIFO (First In First Out) accounting method to determine gain or loss for equity transactions after this date. If the client prefers a different accounting method for equity transactions, the client must notify us in writing prior to opening his or her account with Schwab.

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

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Our portfolio manager reviews a daily report to identify client portfolios that require rebalancing. Rebalancing is the strategy whereby investments that have increased beyond their target allocation are sold while investments that have declined below their target allocation are bought.

In addition to the rebalancing reviews, HFA's team of advisors meets weekly to determine which clients to contact for meetings to discuss portfolio issues. Typically, an HFA investment advisor meets with each of our clients in our office at least once per year. For clients who are either out of the area or otherwise unable to meet in our office, the investment advisor organizes telephone conferences for which we provide materials in advance. In addition to office meetings, we regularly contact our clients by phone, email, or regular mail to discuss portfolio performance and to address other issues or questions the client may have.

A review would be triggered due to a client specific issue such as change in financial circumstances (e.g. employment), or change in health or marital status. Other triggers for an immediate review may include a stated change in the client's risk tolerance or investment objectives.



HFA's clients receive monthly statements directly from our investment custodian, Charles Schwab & Co. Schwab provides separate statements for each account and includes the beginning of month account value, monthly activity (deposits, withdrawals, interest, dividends, fund distributions, and investment appreciation/depreciation), and end of month value.

Each quarter, we prepare and send the client an in-house report called the Quarterly Performance Summary ("QPS"), a letter summarizing market and economic conditions, and our quarterly management fee invoice.

The QPS summarizes all client accounts and provides the following information for each of the prior four quarters:

- Beginning portfolio balance
- Interest, dividends and fund distributions
- Investment appreciation/depreciation
- Management fees paid to us
- Account deposits
- Account withdrawals
- Account percentage performance after fees
- Quarter-end asset allocation

In addition, the QPS includes the following schedules for the most recent quarter:

- Investments by account
- Investments by asset type
- Detail of funds invested and withdrawn
- Detail of investment purchases and sales
- Detail of interest, dividends and fund distributions

On a periodic basis, we send a newsletter via e-mail or post to our blog information that addresses current financial, tax, or estate planning topics.

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

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Existing clients, estate planning attorneys, accountants, employees, personal friends of employees, and other similar sources refer potential new clients to HFA. We do not compensate parties for these referrals.

We do not accept referral fees or any form of remuneration from other professionals when we refer a prospect or client to them.

At various times we will initiate programs with existing employees to compensate them for client referrals.

## Item 15 - Custody

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All assets are held at qualified custodians. The custodians provide account statements directly to the client at the client's address-of-record. Our primary custodian is Charles Schwab. Under government regulations, HFA is deemed to have custody of client assets if, for example, the client authorizes us to instruct Schwab to deduct our advisory fees directly from the client's account. Schwab maintains actual custody of client assets.

Each month Schwab sends account statements directly to the email or postal mailing address the client provides to Schwab. The client should carefully review those statements promptly when he or she receives them. We also urge the client to compare Schwab statements to the performance reports we send quarterly.

Approximately 3.5% of client assets are held outside of our primary custodian, Charles Schwab. Jefferson National Insurance Company or other insurance companies hold these assets in "no load" variable annuity accounts. We use these companies to hold legacy client variable annuity assets so that clients may preserve desired tax advantages inherent in an annuity.

## Item 16 - Investment Discretion

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HFA contracts for limited discretionary authority to transact portfolio securities accounts on behalf of clients. Discretionary authority is granted either by HFA's investment management agreement and/or by a separate limited power of attorney where such document is required. HFA has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. HFA's discretionary authority regarding investments may however be subject to certain limitations. These limitations are recognized as the restrictions and prohibitions placed by the client on transactions in certain types of business or industries. All such restrictions are to be agreed upon in writing at the account's inception. HFA will consult with the client where discretion is not obtained prior to each trade in order to obtain client approval for the transaction.

## Item 17 - Voting Client Securities

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As a matter of firm policy and practice, HFA does not have any authority to and does not vote proxies on behalf of advisory clients. The client retains the responsibility for receiving and voting proxies for any and all securities maintained in the client portfolio. HFA may discuss with clients questions they may have regarding specific proxies or other solicitations.

The client receives proxies from the fund companies via U.S. mail through our custodian Charles Schwab. If the client has signed up for electronic delivery, Schwab delivers the proxy via e-mail.

The client approves the custodian used and the commission rates paid to the custodian. HFA does not receive any portion of the transaction fees or commissions that the client pays to the custodian.

Certain existing clients are non-discretionary. This means that HFA must receive client approval in advance of every investment transaction.

When the client opens a Schwab account under HFA's management, the client authorizes HFA to direct Schwab to execute trades in their account.

## Item 18 - Financial Information

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HFA does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients. HFA meets all net capital requirements to which it is subject. HFA has never been the subject of a bankruptcy petition.

We are not required to provide an audited balance sheet to our clients because we do not:

- require the prepayment of more than \$1,200 in fees and six or more months in advance, or
- take custody of client funds or securities, or
- have a financial condition that is reasonably likely to impair our ability to meet our commitments to our clients.