



**Firm Brochure**  
*Part 2A of Form ADV*

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March 3, 2015*

This brochure provides information about the qualifications and business practices of Harfst and Associates, Inc. If you have any questions about the contents of this brochure, please contact us at (541) 488-2634 and/or at [info@harfstassoc.com](mailto:info@harfstassoc.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 Harfst and Associates, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Harfst and Associates, Inc. is 145090.

Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

## Item 2 Material Changes

As a registered investment adviser, we must ensure that our brochure is current and accurate and makes full disclosure of all material facts relating to the advisory relationship. If there have been any material changes to our business or advisory practices since our last annual update, we will provide a description of such material changes here.

Since the filing of our last annual updating amendment, dated March 17, 2014 we have no material changes to report.

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## Item 4 Advisory Business

Harfst and Associates, Inc. is organized as a corporation under the laws of the State of Oregon, and our firm became licensed as a registered investment advisor in 2007. Robby D. Harfst, President/Principal Owner, has been employed in the securities and financial services industry since 1993. Our main office is located in Ashland, Oregon. As an independent advisor, we offer the full spectrum of wealth management services by incorporating financial planning, investment management, and risk management.

As used in this brochure, the words "we", "our" and "us" refer to Harfst & Associates, Inc., and the words "you", "your" and "client" refer to you as either a client or prospective client of our firm. Also, you may see the term

"Associated Person" throughout this brochure. As used in this brochure, our Associated Persons are our firm's officers, employees, and all individuals providing investment advice on behalf of our firm.

### Advisory Services and Fees

Currently, we offer the following advisory services, which are tailored for each individual client:

- **Wealth Management Services**
- **Institutional Management Services**
- **Pension Consulting Services and Pension Investment Management**
- **Financial Planning and Consulting Services**

The following paragraphs describe our services and fees. Please refer to the description of each advisory service listed below for information on how we tailor our services to your individual needs.

### Wealth Management Services

We offer wealth management services to individuals, families and small businesses. Our wealth management services include investment management combined with general financial planning, retirement planning, estate planning, and charitable giving planning.

We offer discretionary and, in some instances, non-discretionary investment management services to our wealth management clients and prospective clients. If you retain our firm for wealth management services, we will determine your objectives, risk tolerance, and other relevant information (the "suitability information") at the beginning of our advisory relationship. We will use the suitability information we gather from our initial meeting and any subsequent meetings to develop a strategy that enables our firm to give you continuous and focused financial advice including investment advice and/or to direct investments on your behalf. The investment objective information will be maintained in an Investment Policy Statement (IPS) and updated as needed. As part of our wealth management services, we may invest your assets in one or more predefined model portfolios developed by our firm or sub-advisory firm, or we may customize a portfolio for you. Once we implement an investment strategy, we will monitor your portfolio's performance on an ongoing basis and will rebalance the portfolio as needed.

Discretionary investment management grants our firm authority with respect to managing the investment of client investment assets, including the authority to determine specific investments, purchase, sell, exchange, convert, trade and generally deal in securities and other property comprising the clients investment assets within the investment guidelines set forth in the IPS without your approval prior to each transaction. Discretionary authority is typically granted by the investment advisory agreement you sign with our firm, a limited power of attorney, or trading authorization form.

You may specify investment objectives, guidelines, and/or impose certain conditions or investment parameters for your account(s) in the IPS. For example, you may specify that the investment in any particular stock or industry should not exceed specified percentages of the value of the portfolio and/or restrictions or prohibitions of transactions in the securities of a specific industry or security or asset class. Please refer to the "Investment Discretion" section in this Brochure for more information on our discretionary management services.

As part of our wealth management services, we may use one or more sub-advisors to manage a portion of your investments on a discretionary basis. The sub-advisor(s) may use one or more of their model portfolios to manage your account and/or they may design a custom portfolio. We will regularly monitor the performance of your accounts managed by sub-advisor(s), and may hire and/or fire any sub-advisor or re-allocate your assets without your prior approval based on you granting our firm discretionary authority. You may incur additional advisory fees if a sub-advisor is used. Depending on the sub-advisor used, the fees paid to the sub-advisor may be in addition to our advisory fee and may be deducted directly from your account separately from our advisory fee. In such circumstances, any management/advisory fees, which are deducted directly from your account, will be clearly indicated on your account statement. Fees assessed by the sub-advisor will range from .25% to .50% of the assets managed by the sub-advisor.

If you enter into a non-discretionary arrangement with our firm, we must first obtain your approval prior to the execution of any trades in your account(s).

We also offer wealth management services to our clients for accounts they have that may be held with custodians where we may not have trading authority, we may not have discretionary management authority, and/or we are unable to debit advisory fees. Our advisory fees for these types of situations may be merged into fees of other accounts under our management.

Our fee for wealth management services is based on a percentage of your assets we manage and is set forth in the following fee schedule:

<b>Assets Under Management</b>	<b>Annual Fee*</b>
\$0 to \$250,000	1.25%
Additional Assets from \$250,000 to \$500,000	1.15%
Additional Assets from \$500,000 to \$1,000,000	1.00%
Additional Assets from \$1,000,000 to \$3,000,000	0.75%
Additional Assets from \$3,000,000 to \$10,000,000	0.70%
Additional Assets from \$10,000,000 to \$20,000,000	0.50%
Additional Assets from \$20,000,000 and greater	0.40%

*\*Note: Fees are calculated on a graduated basis. For example, an account of \$1,000,000 would pay on an annualized basis 1.25% of the first \$250,000, 1.15% on the next \$250,000 and 1.00% on the next \$500,000.*

The above fee schedule does not include transaction fees, or other fees/expenses charged by brokers, custodians, or mutual funds. Mutual fund purchases will be made at NAV (net asset value). Pre-existing client relationships may be subject to fee schedules and account minimums that differ from the current fee schedule and account minimum disclosed in this brochure. In limited circumstances, we may charge a flat fee. Our advisory fee is negotiable, depending on individual client circumstances.

We may combine the account values of related accounts to determine the applicable advisory fee. Combining account values will increase the asset total, which may result in your paying a reduced advisory fee.

Our annual wealth management fee is billed and payable quarterly in advance based on the market value of your account(s) on the last day of the previous calendar quarter. If the wealth management agreement is executed at any time other than the first day of a calendar quarter, our fees will apply on a pro rata basis, which means that the advisory fee is payable in proportion to the number of days in the quarter for which you are a client.

We will deduct our fee directly from your account through the qualified custodian holding your funds and securities. We will deduct our advisory fee only when you have given our firm written authorization permitting the fees to be paid directly from your account. In some circumstances, we will send you an invoice for the payment of our advisory fee or negotiate other terms. Further, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements from your account, including the advisory fees deducted. You should review all statements for accuracy.

You may terminate the wealth management agreement upon written notice to our firm. You will incur a pro rata charge for services rendered prior to the termination of the wealth management agreement, which means you will incur advisory fees only in proportion to the number of days in the quarter for which you are a client. If you have pre-paid advisory fees that we have not yet earned, you will receive a prorated refund of those fees.

### **Institutional Management Services**

Institutional management services are offered through Cascade Investment Counsel, an internal division of Harfst & Associates, Inc. We provide standalone, specialized asset management to high net worth individuals, family offices, trusts, endowments, foundations, charitable institutions, pension plans and other institutions.

We may provide sub-adviser services for other investment advisors whereby such advisors engage us for the purpose of managing the advisor's client assets ("outside accounts"). The third party advisor will remain the "primary advisor" for its client accounts. Depending upon the specific engagement, model portfolio allocations may be constructed and maintained to provide investment objective driven management services to investors. The primary advisor will communicate with and assist its clients, the investors, in selecting the appropriate model based on information the investor provides. We will monitor the investments contained in the outside accounts in order to provide on-going supervision as to changes in the investments, and/or allocations of such investments, that are necessary to adhere to the desired investment objective.

Similarly, we may be engaged to act as a portfolio manager for wrap-fee programs sponsored by unaffiliated investment advisors, broker-dealers, and other financial institutions. A "wrap-fee" program is an advisory program whereby a specified fee is charged to the investor for providing a bundle of services, which typically includes execution of transactions, custodial services, advisory and/or management services. The total fee levels charged to investors are set by the program sponsor. Our fees for these services represent a portion of the total wrap-fee charged and are generally lower than our standard management fee to recognize the marketing, account set-up and account maintenance of the program sponsor and/or primary advisor.

As part of our Institutional management services, we may use one or more sub-advisors to manage a portion of your investments on a discretionary basis. The sub-advisor(s) may use one or more of their model portfolios to manage your account and/or they may design a custom portfolio. We will regularly

monitor the performance of your accounts managed by sub-advisor(s), and may hire and/or fire any sub-advisor or re-allocate your assets without your prior approval based on you granting our firm discretionary authority. You may incur additional advisory fees if a sub-advisor is used. Depending on the sub-advisor used, the fees paid to the sub-advisor may be in addition to our advisory fee and may be deducted directly from your account separately from our advisory fee. In such circumstances, any management/advisory fees, which are deducted directly from your account, will be clearly indicated on your account statement. Fees assessed by the sub-advisor will range from .25% to .50% of the assets managed by the sub-advisor.

Generally, our fees are negotiable based on a percentage of assets under management and will not exceed an annualized fee of 1.25%. Applicable fees, fee payment arrangements, and the terms of the engagement will be clearly set forth in the agreement executed prior to services being rendered. Either party may terminate the management agreement by giving written notice at any time for any reason; such termination would be effective as of the last day of the calendar quarter in which written notice is delivered.

### **Pension Consulting Services and Pension Investment Management**

We offer pension consulting services and/or pension investment management to employee benefit plans and their fiduciaries based upon the needs of the plan and the services requested by the plan sponsor or named fiduciary. In general, these services may include an existing plan review and analysis, plan-level advice regarding fund selection and investment options, education services to plan participants, investment performance monitoring, ongoing consulting, and investment management. We offer advisory services for both participant directed and non-participant directed plans. We provide pension investment advisory services as a fiduciary under the Employee Retirement Income Security Act (ERISA). The ultimate decision to act on behalf of the plan shall remain with the plan sponsor or other named fiduciary.

We may also assist with participant enrollment meetings, advise plan participants regarding distribution alternatives, provide investment-related information to plan participants on such topics as diversification, asset allocation, risk tolerance, and time horizon and assist participants with investment selection. Additionally, our educational seminars may include other investment-related topics specific to the particular plan.

The scope of these services, the fees, and the terms of the agreement for these services will be negotiated on a case-by-case basis with each plan sponsor. Generally, our fees will be based on a percentage of plan assets and will not exceed an annualized fee of 1.25%. However, depending on the complexity of the plan and the agreement with the sponsor, our fees may also be based on an hourly fee, on a flat fee, or on a combination of all three fee arrangements.

Asset based fees are generally deducted directly from your plan's account(s) through the qualified custodian holding your funds and securities. We will deduct our advisory fee only when you have given our firm written authorization permitting the fees to be paid directly from your account. Fees may be charged monthly, quarterly, in advance or in arrears based upon the custodian and type of plan. Please refer to advisory agreement for specific details on fee billing terms. In some circumstances, we will send you an invoice for the payment of our advisory fee. Further, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements from your account, including the advisory fees deducted. You should review all statements for accuracy.

Either party to the pension consulting agreement may terminate the agreement upon written notice to the other party. The pension consulting fees will be prorated for the period in which the termination notice is given and any unearned fees will be refunded to the client.



## **Financial Planning and Consulting Services**

We offer broad-based, modular, and consultative financial planning services to our clients and prospective clients. Financial planning will typically involve providing a variety of advisory services to clients regarding the management of their financial resources. If you retain our firm for financial planning services, we will first define the relationship and the scope of the engagement. Then we will gather the necessary information about your financial position and circumstances. After we analyze and evaluate the information, we will develop and present our recommendations. Finally, we will assist with implementing the recommendations and monitor the situation if/as needed.

Generally, our fee is based on an estimate of the hours necessary to complete the engaged services. Our hourly rate is \$250 for financial planning services. An estimate of the total time/cost will be determined at the start of the advisory relationship. The time required to perform the engaged services may vary depending on the complexity and scope of the engagement. In limited circumstances, the cost/time could potentially exceed the initial estimate. In such cases, we will notify you in advance and request that you approve the additional fee.

In the alternative, we may charge a fixed fee for financial planning services, which generally ranges between \$250 and \$5,000. The fee is negotiable depending upon the complexity and scope of the engagement. Unless otherwise agreed upon, financial planning and consulting fees are billed and due upon completion of services rendered. Further, we will not require prepayment of a fee more than six months in advance and in excess of \$1,200. You may terminate the financial planning agreement by providing written notice to our firm. You will incur a pro rata charge for services rendered prior to the termination of the agreement. You are under no obligation to act on our financial planning recommendations. Should you choose to act on any of our recommendations, you are not obligated to implement them through our firm.

## **Assets Under Management**

As of February 24, 2015, the assets under our management totaled \$327,580,933.

## **Item 5 Fees and Compensation**

Please refer to the "Advisory Business" section in this Brochure for information on our advisory fees, fee deduction arrangements, and refund policy according to each service we offer.

## **Additional Fees and Expenses**

As part of our investment advisory services to you, we may invest, or recommend that you invest, in mutual funds and exchange traded funds. The fees that you pay to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds or exchange traded funds (described in each fund's prospectus) to their shareholders. These fees will generally include a management fee and other fund expenses. Mutual fund purchases/sales will be made at NAV. You may also incur transaction charges and/or brokerage fees when purchasing or selling securities. These charges and fees are typically imposed by the broker-dealer or custodian through which your account transactions are executed. We do not share in any portion of the brokerage fees/transaction charges imposed by the broker-dealer or custodian.

Custodians may offer no-load, no-transaction fee mutual fund programs and may receive remuneration from fund companies participating in these programs for record-keeping and shareholder services and other administrative services. The amount of remuneration for these services is based in part on the amount of investments in such funds. No-transaction-fee funds have management expenses and other fees that apply to a continued investment in the fund and are described in the prospectus.



To fully understand the total cost you will incur, you should review all the fees charged by mutual funds, exchange traded funds, our firm, and others. For information on our brokerage selection practices, please refer to the "*Brokerage Practices*" section of this Brochure.

There may be additional account maintenance fees, such as check writing fees, IRA fees, etc. charged by the custodians. These fees will vary by custodian.

### **Compensation for the Sale of Insurance Products and Potential Conflict of Interest**

Some of our associated persons providing investment advice on behalf of our firm are also licensed as independent insurance agents and can sell insurance products such as life insurance, fixed annuities, long-term care insurance, and disability insurance. The associated persons may earn commission-based compensation for selling insurance products, including insurance products they sell to you. Insurance commissions earned by these persons are separate and distinct from our advisory fees. For example, the receipt of commission-based compensation would present a conflict of interest in that if you freely choose to purchase an insurance product from an associated person, it may result in the receipt of compensation by such person.

However, as a fiduciary, we endeavor at all times to place your interests first when making recommendations, and will recommend insurance products only when it's in your best interest and when it meets your specific needs. You are under no obligation, contractually or otherwise, to purchase insurance products through any person affiliated with our firm. In the event that commission-based insurance products are used, they will be exempt from investment advisory fees.

Any material conflicts of interest between you and our firm, or our employees are disclosed in this Disclosure Brochure. If at any time, additional material conflicts of interest develop, we will provide you with written notification of the material conflicts of interest or an updated Disclosure Brochure.

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

We do not accept performance-based fees or participate in side-by-side management. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees. Performance-based fees are fees that are based on a share of capital gains or capital appreciation of a client's account. Our fees are calculated as described in the *Advisory Business* section above, and are not charged on the basis of a share of capital gains upon, or capital appreciation of the funds in your advisory account.

## **Item 7 Types of Clients**

We offer investment advisory services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, and other business entities. In general, we require a minimum of \$500,000 to open and maintain an advisory account. At our discretion, we may waive or lower this minimum account size.

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

Our investment strategies and advice may vary depending upon each client's specific financial situation. As such, we determine investments and allocations based upon your predefined objectives, risk tolerance, time horizon, financial horizon, financial information, liquidity needs, and other various suitability factors. Your restrictions and guidelines may affect the composition of your portfolio.

## Methods of Analysis

We may use one or more of the following methods of analysis when formulating investment advice:

- **Top-Down Global Macro-Economic Analysis** - a big-picture analysis of the prevailing economic, demographic and social trends followed by a more focused analysis at the country level, then the industry level and ultimately the specific security level
- **Mutual Fund/Exchange Traded Fund Analysis** - qualitative analysis looks at factors such as the background and experience of the fund manager and/or the fund company; quantitative analysis looks at factors such as manager/fund performance, style, consistency, risk-adjusted performance, management expenses, average daily trading volume, etc.
- **Fundamental Analysis** - involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product line, the experience and expertise of the company's management, and the outlook for the company's industry; the resulting data is used to measure the true value of the company's stock compared to the current market value
- **Technical Analysis** - involves studying past price patterns and trends in the financial markets to predict the direction of both the overall market and specific stocks

## Associated Risks

- **Fundamental Analysis** - The risk of fundamental analysis is that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.
- **Technical Analysis** - The risk of market timing based on technical analysis is that charts may not accurately predict future price movements. Current prices of securities may reflect all information known about the security and day to day changes in market prices of securities may follow random patterns and may not be predictable with any reliable degree of accuracy.

## Investment Strategy

We take a common sense approach to investment management - globally diversified asset classes combined with tactical allocations derived from macro-economic data and market analysis. We believe that increasing and/or decreasing allocations to specific investments at optimal times to realize gains and/or avoid losses is crucial to overall investment performance. All investments under our management are continually monitored to maximize short and long-term opportunities. Portfolios are constructed based upon individual risk, return, income and liquidity requirements. We primarily use mutual funds and exchange traded funds to maximize diversification and minimize risk but will use individual securities and other investment vehicles when appropriate. In addition, we may use one or more of the following general strategies when managing your accounts:

- **Inverse fund/Bear fund/Short fund** - a type of fund that is structured to go up in value when a given market index or underlying investment goes down in value, and vice versa
- **Long Term Purchases** - securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year
- **Short Term Purchases** - securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short term price fluctuations
- **Short Sales** - a securities transaction in which an investor sells securities he or she borrowed in anticipation of a price decline; the investor is then required to return an equal number of

shares at some point in the future; a short seller will profit if the stock goes down in price (This strategy requires additional agreements and approvals.)

- **Margin Transactions** - a securities transaction in which an investor borrows money to purchase a security and the security serves as collateral on the loan. (This strategy requires additional agreements and approvals.)
- **Option Writing** - a securities transaction that involves selling an option; an option is the right, but not the obligation, to buy or sell a particular security at a specified price before the expiration date of the option; when an investor sells an option, he or she must deliver to the buyer a specified number of shares if the buyer exercises the option; the seller pays the buyer a premium (the market price of the option at a particular time) in exchange for writing the option. (This strategy requires additional agreements and approvals.)

We may use short-term trading (in general, selling securities within 30 days of purchasing the same securities) as an investment strategy when managing your account(s). Short-term trading is not a fundamental part of our overall investment strategy, but we may use this strategy occasionally when we determine that it is suitable given your stated investment objectives and tolerance for risk.

### **Tax Considerations**

Our strategies and investments may have unique and significant tax implications. Regardless of your account size or any other factors, we strongly recommend that you continuously consult with a tax professional. As a result of revised IRS regulations, custodians and broker-dealers will begin reporting the cost basis of equities acquired in client accounts on or after January 1, 2011. Our firm instructs the custodian to use the first-in, first-out (FIFO) accounting method for calculating and reporting the cost basis of your investments. You are responsible for contacting your tax advisor to determine if this accounting method is the right choice for you. If your tax advisor believes another accounting method is more advantageous, please provide written notice to our firm immediately, and we will alert your account custodian of your individually selected accounting method. Please note that decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

### **Risk of Loss and Types of Securities**

**Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.**

We may select/recommend different securities from client to client since each client has different needs and different tolerance for risk. We often select/recommend mutual funds, exchange traded funds (ETF), individual equity and debt securities; however, we may select/recommend any suitable security based on your needs and objectives. Each type of security has its own unique set of risks associated with it, and it would not be possible to disclose all of the specific risks of every type of investment in this brochure. We strive to keep you educated and informed of material risks associated with particular investments. Further, if you have any questions regarding the risks associated with a particular investment, please feel free to contact your advisory representative.

Mutual funds are professionally managed collective investment companies that pool money from many investors and invest in stocks, bonds, short-term money market instruments, other mutual or exchange traded funds, other securities or any combination thereof. The fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. While mutual funds generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular

sector of the market, primarily invests in small cap or speculative companies, uses leverage (i.e., borrows money) to a significant degree, or concentrates in a particular type of security (i.e., equities) rather than balancing the fund with different types of securities. Other fund risks include foreign securities and currency risk, emerging markets risk, small-cap, mid-cap and large-cap risk, trading risk, and turnover risk that can increase fund expenses and may decrease fund performance. Brokerage and transactions costs incurred by the fund will reduce returns.

An ETF is an investment fund traded on stock exchanges, much like stocks or equities. An ETF holds assets such as stocks, commodities, or bonds and trades at approximately the same price as the net asset value of its underlying assets over the course of the trading day. Most ETFs track an index, such as the S&P 500. However, some ETFs are fully transparent actively managed funds. Market risk is, perhaps, the most significant risk associated with ETFs. This risk is defined by the day to day fluctuations associated with any exchange traded security, where fluctuations occur in part based on the perception of investors.

Individual equity securities (also known simply as "equities" or "stock") are assessed for risk in numerous ways. Price fluctuations and market risk are the most significant risk concerns. As such, the value of your investment can increase or decrease over time. Furthermore, you should understand that stock prices can be affected by many factors including, but not limited to, the overall health of the economy, the health of the market sector or industry of the issuing company, and national and political events. When investing in stock, it is important to focus on the average returns achieved over a given period of time, across a well-diversified portfolio.

Individual debt securities (or "bonds") are typically safer investments than equity securities, but their risk can also vary widely based on: the financial health of the issuer; the risk that the issuer might default; when the bond is set to mature; and, whether or not the bond can be "called" prior to maturity. When a bond is called, it may not be possible to replace it with a bond of equal character paying the same rate of return.

## **Item 9 Disciplinary Information**

Neither our firm, nor any of our management persons have any legal or disciplinary events to disclose.

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

As previously disclosed, some of our associated persons providing investment advice on behalf of our firm are also licensed as independent insurance agents and can sell insurance products such as life insurance, fixed annuities, long-term care insurance, and disability insurance. The associated persons may earn commission-based compensation for selling insurance products, including insurance products they sell to you. Insurance commissions earned by these persons are separate and distinct from our advisory fees. The receipt of commission-based compensation presents a conflict of interest, in that if you freely choose to purchase an insurance product from an associated person, it may result in the receipt of compensation by such person.

However, as a fiduciary, we endeavor at all times to place your interests first when making recommendations, and will recommend insurance products only when it's in your best interest and when it meets your specific needs. You are under no obligation, contractually or otherwise, to purchase insurance products through any person affiliated with our firm. In the event that commission-based insurance products are used, they will be exempt from investment advisory fees.

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

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for our Associated Persons. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. Our Code of Ethics is available to you upon request. You may obtain a copy of our Code of Ethics by contacting us at the telephone number on the cover page of this brochure or via email at [info@harfstassoc.com](mailto:info@harfstassoc.com).

### **Personal Trading Practices**

Our firm or persons associated with our firm may buy or sell the same securities that we recommend to you or securities in which you are already invested. We may also combine our orders to purchase securities with your orders to purchase securities ("block trading"). Please refer to the "Brokerage Practices" section in this Brochure for information on our block trading practices.

A conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To mitigate this conflict of interest, it is our policy that neither our Associated Persons nor we shall have priority over your account in the purchase or sale of securities. Our associated persons must adhere strictly to these guidelines. Our Code of Ethics also requires that certain persons associated with our firm submit reports of their personal securities holdings and transactions to the chief compliance officer of our firm who will review these reports on a periodic basis.

## **Item 12 Brokerage Practices**

We maintain relationships with several custodians/brokerage firms. While you are free to choose any brokerage firm, transfer agent, or custodian, we recommend that you establish an account with a custodian/ broker-dealer with which we have an existing relationship. We believe that recommended broker-dealers provide quality execution services for our clients at competitive prices. Price is not the sole factor we consider in evaluating best execution. We also consider the quality of the brokerage services provided by the recommended broker-dealers, including the firm's reputation and financial stability, execution capabilities, commission rates, technology, and responsiveness to our clients and our firm.

### **Custodians and Other Benefits**

We participate in the TD Ameritrade Institutional program, the Schwab Institutional program and the Raymond James' IAD program. TD AMERITRADE Institutional is a division of TD AMERITRADE, Inc. ("TD AMERITRADE"). All of the custodians we use are independent and un-affiliated with our firm. The custodians work with independent investment advisors to provide custodial services, which include custody of securities, trade execution, clearance and settlement of transactions. We may receive some benefits from TD AMERITRADE, Schwab and/or Raymond James through our participation in their institutional programs.

There is no direct link between our firm's participation in these programs and the investment advice we give to our clients. Our firm does receive benefits through our participation in the program that are typically not available to retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees



deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with reduced or no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to our firm by third party vendors.

Some of the products and services made available by the custodians may benefit our firm but may not benefit all client accounts. These products or services may assist our firm in managing and administering client accounts, including accounts not maintained at these custodians. The benefits received by our firm through participation in the programs do not depend on the amount of transactions directed to the custodians and are not considered soft dollar benefits. As part of our fiduciary duties to our clients, we endeavor at all times to put the interests of our clients first.

### **Brokerage for Client Referrals**

We may receive client referrals from broker-dealers/custodians. A referral arrangement of this kind may create an incentive to select or recommend a particular custodian based in part on an interest in obtaining referrals. Our participation in a referral program or referral arrangement does not diminish our duty to seek best execution of trades for your accounts, and our best execution practices are described above.

### **Directed Brokerage**

In limited circumstances, and at our discretion, some clients may instruct our firm to use one or more particular brokers for the transactions in their accounts. If you choose to direct our firm to use a particular broker, you should understand that this might prevent our firm from aggregating trades with other client accounts or from effectively negotiating brokerage commissions on your behalf. This practice may also prevent our firm from obtaining favorable net price and execution. Thus, when directing brokerage business, you should consider whether the commission expenses, execution, clearance, and settlement capabilities that you will obtain through your broker are adequately favorable in comparison to those that we would otherwise obtain for you.

### **Block Trades**

We may combine multiple orders for shares of the same securities purchased for advisory accounts we manage (this practice is commonly referred to as "block trading"). We will then allocate the shares to participating accounts in a fair and equitable manner. The allocation of the shares purchased is typically proportionate to the size of the account, and is not based on account performance or the amount or structure of management fees. Subject to our discretion regarding factual and market conditions, when we combine orders, each participating account pays an average price per share for all transactions and the transaction costs. Accounts owned by our firm or persons associated with our firm may participate in block trading with your accounts; however, they will not be given preferential treatment. Please note that we typically do not combine orders for non-discretionary accounts.

## **Item 13 Review of Accounts**

We monitor our clients' accounts on an ongoing basis. We will provide an account review at least annually and upon your request. Additional reviews may be conducted based on various circumstances, including, but not limited to:

- contributions and withdrawals;
- year-end tax planning;
- market moving events;
- security specific events; and/or,
- changes in your risk/return objectives.

We may provide you with additional or regular written reports in conjunction with account reviews. Reports we provide to you typically contain the relevant account and/or market-related information such as an inventory of account holdings and account performance, etc. We generally also provide you with periodic or annual tax-related information. In addition, you will receive trade confirmations and monthly or quarterly statements from your account custodian(s).

Our firm will review your financial plans as needed, depending on the arrangements made with you at the inception of your advisory relationship. Generally, reviews and updates to your financial plans will be conducted upon your request. Where warranted, we will provide you with updates to the financial plan in conjunction with the review. Such reviews and updates will be subject to our then current hourly rate.

Please contact us at any time if you encounter changes in your financial situation or circumstances. Changed circumstances may include, but are not limited to marriage, divorce, birth, death, inheritance, lawsuit, retirement, job loss, and/or disability, among others.

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

We may compensate outside consultants, individuals, and/or entities (Solicitors) for client referrals. In order to receive a referral fee from our firm, Solicitors must comply with the requirements of the jurisdictions in which they operate. If you were referred to our firm by a Solicitor, you should have received a copy of this brochure along with the Solicitor's disclosure statement at the time of the referral. If you become a client, the Solicitor that referred you to our firm will receive compensation. You will not pay additional fees because of this referral arrangement. Referral fees paid to a Solicitor are contingent upon your entering into an advisory agreement with our firm. As such, a Solicitor has a financial incentive to recommend our firm to you for advisory services; however, you are not obligated to retain our firm for advisory services. Comparable services and/or lower fees may be available through other firms.

## **Item 15 Custody**

Provided we receive your written authorization, we will instruct your custodian to directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds. We **do not** have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, registered investment company, broker-dealer, or other independent, qualified custodian. You will receive account statements from the independent, qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy.

## **Item 16 Investment Discretion**

Our firm provides discretionary investment management services. Discretionary investment management allows our firm to determine the specific securities, and the amount of securities to be purchased or sold for your account within the investment guidelines set forth in the IPS without your approval prior to each transaction. Discretionary authority is typically granted by the investment advisory agreement you sign with our firm, a power of attorney, or trading authorization form.



You may specify investment objectives, guidelines, and/or impose certain conditions or investment parameters for your account(s) in the IPS. For example, you may specify that the investment in any particular stock or industry should not exceed specified percentages of the value of the portfolio and/or restrictions or prohibitions of transactions in the securities of a specific industry or security. Please refer to the "Advisory Business" section in this Brochure for more information on our discretionary management services.

If you enter into a non-discretionary arrangement with our firm, we must first obtain your approval prior to the execution of any transactions in your account(s).

## **Item 17 Voting Client Securities**

We will not vote proxies on behalf of your accounts. At your request, we may provide advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of common stock or mutual funds, you are responsible for exercising your right to vote as a shareholder.

In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we will forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case, we will forward any electronic solicitation to vote proxies.

## **Item 18 Financial Information**

Our firm does not have any financial conditions or impairments that would prevent us from meeting our contractual commitments to you. We **do not** take physical custody of client funds or securities, or serve as trustee or signatory for client accounts, and we do not require the prepayment of fees six or more months in advance and in excess of \$1,200. Therefore, we are not required to include a financial statement with this brochure.

## **Item 19 Requirements for State Registered Investment Advisers**

We are a federally registered investment adviser; therefore, we are not required to respond to this item.

## **Item 20 Additional Information**

### **Your Privacy**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any nonpublic personal information about you to any non affiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, insurance companies, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to nonpublic personal information about you to employees who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your nonpublic personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your

request, or required by law. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm.

You will receive a copy of our privacy policy prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Please contact us at (541)488-2634 and/or [info@harfstassoc.com](mailto:info@harfstassoc.com) if you have any questions regarding this policy.

### **Trade Error Policy**

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account.

If your custodian is TD Ameritrade, all net gains from trade corrections will automatically be moved to a designated TD Ameritrade Error Account on a daily basis. TD Ameritrade will subsequently donate these funds to the American Red Cross or another 501(c)(3) charity that we may designate in the future.

If your custodian is Schwab, any net gain will remain in your account unless: the same error involved other client account(s) that should have received the gain; it is not permissible for you to retain the gain; or we confer with you and you decide to forego the gain (e.g., due to tax reasons). If the gain does not remain in your account, Schwab will donate the amount of any gain \$100 and over to charity.

### **Class Action Lawsuits**

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation. In addition, we do not initiate class actions nor do we complete litigation forms to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you.