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**BROCHURE**

March 25, 2015

**This brochure provides information about the qualifications and business practices of PPS Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at (800) 634-3695 or email [clientservices@ppsadvisors.com](mailto:clientservices@ppsadvisors.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. Registration with the Securities and Exchange Commission does not imply any particular level of skill or training.**

**Additional information about PPS Advisors, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Material Changes**

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This update to PPS Advisors, Inc.'s brochure is our first update since our October 20, 2014 amendment. There are two material changes to our ADV 2A Disclosure Brochure since our last amendment.

David J. Mottes is now the Chief Compliance Officer and Cliff Walsh, CFA is the Director of Investments of PPS. See Advisory Business on page 4.

In addition to our Wrap fee program we now provide management of investment portfolios for clients under our Form ADV Part 2A Services. See Advisory Business on page 4 and see Fees and Compensation on page 6.

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## **Advisory Business**

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PPS Advisors, Inc. doing business as Professional Planning Services (“PPS”) provides consulting and management of investment portfolios for individuals, pension and profit sharing plans, trusts and business entities, in accordance with the investment objective(s) of the client. Clients may restrict or prohibit purchases of certain securities or certain types of securities for their accounts. In addition, to the extent specifically requested by a client, PPS may provide financial planning services to its investment management clients on investment and non-investment related matters. PPS has been in business since 2010. Lawrence N. Passaretti, the founder and Chief Executive Officer and Chief Investment Officer of PPS, owns more than 25% of PPS. David J. Mottes is the Chief Compliance Officer and Cliff Walsh, CFA is the Director of Investments of PPS.

As of December 31, 2014, PPS manages \$350,088,847 in assets on a discretionary basis and \$17,777,108 in assets on a non-discretionary basis. PPS has approximately \$503,817,256 of total assets under advisement.

### **PPS offers the following services:**

**Management of Investment Portfolios.** PPS provides management of investment portfolios for individuals, pension and profit sharing plans, trusts and business entities, in accordance with the investment objective(s) of the client. PPS accepts discretionary authority to manage securities accounts on behalf of clients pursuant to an investment advisory agreement in which the client appoints PPS as its agent and attorney-in-fact with full investment power and authority on behalf of the client’s account. Pursuant to this discretionary authority, PPS normally will determine which securities to buy or sell for the account, and the total amount of the purchases and sales. Clients may place limitations on this authority, including restricting or prohibiting purchases of certain types of securities.

**Retirement Plan Consulting.** PPS assists clients with determining suitable investments for the investment alternatives available in their retirement plan. PPS reviews the individual’s plan goals and investment offering periodically as conditions warrant and may facilitate communication between the client and plan administrator and record keeper. In certain circumstances, PPS provides plan sponsors in designing, selecting, establishing and maintaining a qualified retirement plan and a written plan is not produced.

**Investment Review & Analysis Consulting.** First, PPS consults with the client to obtain his/her risk tolerance profile, investment time horizon and investment goals. Next, PPS reviews the client’s portfolio for inefficiencies in the areas of expenses, taxes, asset allocation, liquidity and overall investment strategy. Once identified, PPS optimizes the liabilities of the portfolio as it relates to expenses and taxes. Finally, PPS creates an investment strategy that is in line with the client’s goals and risk tolerance. In certain cases, PPS may engage one or more subadvisers on a client’s behalf to help implement the client’s investment strategy.

**Variable Annuity and Variable Life Insurance Consulting.** PPS assists clients with determining suitable investment alternatives for the investment options available in variable annuity and/or variable life insurance policies. PPS reviews the individual’s goals and investment offering periodically as conditions warrant and provides advice regarding investment options upon request.

**Insurance Consulting.** PPS helps clients choose a life insurance policy, evaluate key features and terms of policies and determine the appropriate amount of coverage. PPS determines the financial strengths of the insurer and explains the terms of the policies, including how the terms may affect clients. PPS

reviews a client's goals and other financial circumstances to select a policy that fits within the client's goals and plans. PPS provides insurance counseling for a per engagement flat fee and/or an annual flat fee or at hourly rates.

**Estate Planning.** PPS works with clients to understand how the client wants to provide for others. PPS discusses transferring assets to intended beneficiaries, reducing administration costs, reducing taxes, protecting an estate from mismanagement and protecting assets from creditors and other claims. Once PPS understands a client's goals, PPS designs a fully explained estate plan tailored to meet a client's objectives.

**Review of Asset Protection Plans.** PPS reviews the client's risk management systems. PPS analyzes the client's health, life and disability insurance policies. We look for inefficiencies in the area of premium outlays, insurance definitions, coverage limits, etc. Once identified, we create an asset protection plan for the client that fits their needs as it relates to age, income, health, and long term financial goals. This service does not contemplate the purchase of a full financial plan.

**Review of College Saving Plans.** First, PPS gathers information about the client's family regarding who is intended to attend college (personal, children, etc), who in the family wishes to aid in funding the savings (parents, siblings, grandparents, in-laws, etc.), and to what extent they wish to fund the education. Next, PPS reviews tax and income information to determine how much money can be given to the college savings plan. Then, PPS determines the appropriate investment vehicles to use based on the amount of control and liquidity the major contributors wish to have over the funds invested. Using all these factors, PPS creates a college savings plan to fit the client's goals.

**Comprehensive Reporting Service.** This service is provided to clients who seek quarterly comprehensive reports of all their investment accounts, including, among others, managed accounts, brokerage accounts, retirement plans, variable annuities, etc.

**Qualified Plan Advisory Services.** PPS assists Qualified Retirement Plans and Plan Sponsors in designing, selecting, establishing and maintaining a qualified retirement plans under the following two types of planning arrangements:

- **Initial Plan Consulting Advice** – Under PPS's "Initial Plan Consulting Advice" PPS provides a one-off one-time advice for the Qualified Retirement Plan clients.
- **Ongoing Plan Advice** – Under PPS's "Ongoing Plan Advice" PPS provides ongoing advice to the Qualified Retirement Plan clients.

**PPS Wrap Fee Program.** PPS also offers a managed account wrap fee program provided to clients for an all-inclusive fee. A brochure for the program is delivered to clients participating in each program and may be obtained by contacting PPS at the address or phone number contained on the cover page of this brochure.

**Third Party Wrap Fee Programs.** PPS participates in wrap fee programs sponsored by third party managers, by providing management services. There are no differences between how PPS manages wrap fee accounts and how PPS manages other accounts. PPS receives a portion of the wrap fee the third party manager charges for the portfolio management services PPS provides to the third party manager's wrap fee accounts.

## **Fees and Compensation**

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Investment adviser representatives of PPS who are also registered representatives of American Portfolios Financial Services, Inc. ("APFS"), a registered broker-dealer, may receive commissions on sales of annuity products in their individual capacities as registered representatives of APFS. These commissions are from the sale of the annuity product and are separate from PPS's advisory fee that may be charged for the ongoing portfolio allocation strategies and oversight. This practice presents a conflict of interest and gives the PPS/APFS representative an incentive to recommend investment products based on the compensation they receive rather than the client's needs. To address this conflict, for clients of PPS with respect to which a PPS investment adviser representative receives commissions on the sale of an annuity product as a registered representative of APFS, the advisory fee charged to the account will be reduced by the amount received by the investment adviser representative for selling the annuity product.

**Management of Investment Portfolios.** PPS charges an annual fee, payable quarterly in advance, based on the account value as of the last business day of the immediately preceding calendar quarter. The management fee depends upon the specific type of investment services rendered and upon the market value of assets under management and in certain cases may be negotiable. The maximum annual rate charged per value of a client's account(s) is 3.00%, subject to a minimum quarterly fee of \$75, or in some circumstances, a minimum annual fee of \$2,500.

PPS deducts its fee from client accounts. PPS's management fee covers the investment advisory services of PPS, as well as charges for execution of transactions, custody of account assets and account reporting. Clients may pay more or less for these services than if they were purchased separately. Factors that bear upon the cost of the program in relation to the cost of the same services purchased separately include, among other things, the type and size of the account and the historical and/or expected size or number of transactions in the account. This fee does not cover certain charges assessed by the custodian and brokerage firm from time to time. For partial quarters, the fee is determined by daily proration. If a client deposits more than \$10,000 into the client account after the beginning of a quarter, the fees payable for that quarter with respect to those assets is prorated based on the number of days remaining in the quarter. Fee adjustments are also made for partial withdrawals made during a billing period. Upon termination of the advisory agreement, the advisory fee is prorated to the date of termination and any prepaid fees with respect to those days after the date of termination are promptly returned to the client. If a client terminates the advisory agreement within one year of its acceptance, the client bears any transaction costs incurred during the term of the advisory agreement.

With respect to mutual funds or other pooled investment products held in a client's account, fees payable to PPS are in addition to expenses and ordinary fees borne by these holdings, including sales charges, transaction fees and redemption or surrender fees. PPS's fees could be avoided if the client invested directly in mutual funds and other pooled products.

PPS may invest client assets in alternative investments, including private securities offerings and private investment funds. Officers or employees of PPS as registered representatives of APFS may receive an upfront brokerage commission for the sale of these alternative investments. This practice presents a conflict of interest and gives PPS employees an incentive to recommend investment products based on the compensation received, rather than on a client's needs. To address the conflict that arises, for purposes of calculating the advisory fee for your account, the value of the alternative investment will not be included as an asset for the first twelve (12) months following your purchase. While the asset is held in your account, the alternative investment will be valued at the subscription price you paid for the investment. The companies issuing these alternative investments may be affiliated with officers or employees of PPS, officers or employees of PPS may also invest in these alternative investments, and these alternative

investments will be illiquid for the duration of your investment, which means that for the duration of the investment you will not be able to sell or transfer the investment or there may be restrictions on your ability to sell or transfer the investment.

**All Other Consulting and Planning Services.** PPS may charge clients a fixed, hourly, monthly or asset-based fee for financial planning and/or retirement planning services. The hourly rates, which are negotiable, range from \$150 to \$500 per hour and the fixed fee, which is negotiable, typically ranges from \$500 to \$25,000. The monthly fee is based on the hourly rates and fixed fee rates. The asset-based fee has a maximum cap of 3.00%.

PPS may charge Qualified Plan clients fixed fees, hourly fees and asset-based fees for Qualified Plan Advisory Services. Under PPS's "Initial Plan Consulting Advice" PPS charges hourly fees that are negotiable and will range from \$150 to \$500 per hour or fixed fees, which are negotiable typically ranges from \$500 to \$25,000. Under PPS's "Ongoing Plan Advice" PPS charges annualized asset-based fees that are charged quarterly or semi-annually in arrears, and have a maximum cap of 1.00%.

## **Performance-Based Fees and Side-by-Side Management**

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This item is not applicable to PPS's non-wrap fee clients.

## **Types of Clients**

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PPS provides consulting and management of investment portfolios for individuals, pension and profit sharing plans, trusts and business entities.

PPS requires a minimum account size of \$25,000, which may be waived.

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

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### **PPS Strategic Asset Allocation Models**

PPS is a quantitative manager that does not employ overlay managers for the management of its models. Its key decision points on the positions selected are based on several criteria, including performance, manager tenure, tax efficiency, risk and up and down market capture. Asset allocation decisions, investment selection, buy/sell disciplines, performance and screening methodology are reviewed in entirety at the beginning of each quarter at PPS's Investment Committee meeting led by our Chief Investment Officer and Director of Investments. The decisions made at this meeting determine the macro investment philosophy for the allocation models and risk tolerances that correspond to the allocation market benchmarks, as well as make any required strategic or tactical changes. Mutual fund, ETF or individual equity positions that fail to meet our screening process are removed and replaced. Additionally, mutual fund positions that show an increase in standard deviation and beta are further examined to ensure that the holdings are consistent with the mutual fund's prospectus.

PPS has developed five models that it manages on a discretionary basis that include:

- Income with Capital Preservation
- Income with Moderate Growth

- Growth and Income
- Growth
- Aggressive Growth

These models are created and tested through the Morningstar Advisor Workstation for appropriate risk/return ratios within each model. The model allocations allow for up to a 5% variance from the established model before rebalancing is required. This prevents excess trading that may impact tax consequences and performance on the portfolios. Asset classes that can be used in the models are Domestic and Foreign Equities in all market cap disciplines including sovereign, corporate and high yield debt of both domestic and foreign issuers. Other Fixed Income securities may include the use of MLPs, REITs, Preferred Stock and other dividend plays. PPS also employs alternative asset classes that may include sector bets, real estate, natural resources, hard assets and hedged positions.

Within these portfolios, PPS does not view itself as an active trader, but does trade/adjust client accounts based on the economic environment, interest rates and business forecast.

#### Other Assets

With respect to that portion of a client's account that is not invested in accordance with the above models, PPS manages those assets in accordance with the client's Investment Policy statement.

#### Material Risks

Investing in securities involves risk of loss that clients should be prepared to bear.

The material risks involved in investing with PPS include:

**Market Risk** – All securities are subject to market risk. The values of the securities held by a client may fall rapidly or unpredictably due to a variety of factors, including changing economic, political or market conditions.

**Mutual Fund/ETF Risk** – As a shareholder of mutual funds or ETFs, clients bear their proportionate share of the underlying fund's fees and expenses. As a result, a client's cost of investing will be higher than the cost of investing directly in the underlying funds and may be higher than investment strategies that invest directly in stocks. In addition, a client's investments in mutual funds or ETFs are subject to the particular risks described in the mutual funds/ETFs' prospectuses, copies of which are provided to the client and which PPS urges the client to read.

**Equity Securities Risk** – To the extent a client's account invests in equity investments (i.e., stocks), a particular stock, an industry or stocks in general may fall in value. The value of a client's account will go up and down with the prices of the securities in which the account invests. The prices of stocks change in response to many factors, including the historical and prospective earnings of the issuer, the value of its assets, management decisions, decreased demand for an issuer's products or services, increased production costs, general economic conditions, interest rates, currency exchange rates, investor perceptions and market liquidity.

**Fixed Income Securities Risks** – To the extent a client's account invests in fixed income securities (i.e., bonds), the investment is subject to call risk, which is the possibility that an issuer may redeem the security before maturity (a call) at a price below its current market price. An increased likelihood of a



call may reduce the security's price. If a fixed income security is called, an account may have to reinvest the proceeds in other fixed income securities with lower interest rates, higher credit risk, or other less favorable characteristics.

Debt obligations are also generally subject to the risk that the issuer may be unable to make principal and interest payments when they are due. In addition, securities could lose value because of a loss of confidence in the ability of the borrower to pay back debt. Non-investment grade debt – also known as “high-yield bonds” or “junk bonds” – has a higher risk of default and tends to be less liquid than higher-rated securities.

Fixed income securities are subject to the risk that the securities could lose value because of interest rate changes. For example, bonds tend to decrease in value if interest rates rise. Debt obligations with longer maturities sometimes offer higher yields, but are subject to greater price shifts as a result of interest rate changes than debt obligations with shorter maturities.

Certain fixed income securities, including mortgage-backed securities carry prepayment risks. Prices and yields of mortgage-backed securities assume that the underlying mortgages will be paid off according to a preset schedule. If the underlying mortgages are paid off early, for example when homeowners refinance as interest rates decline, an account may be forced to reinvest the proceeds in lower yielding, high-priced securities. This may reduce an account's total return.

Foreign Securities Risks – The risks may be enhanced depending on the market (e.g., whether the country is developed or developing). The risks of foreign investment include: less liquidity, enhanced volatility due to currency, social and political instability, restrictions on foreign investment and repatriation of capital, less complete and reliable information about foreign companies, reduced government supervision of some foreign securities markets, lower responsiveness of foreign management to shareholder concerns, economic issues or developments in foreign countries, and, in some cases, emerging markets risks, including limited trading volume, expropriation, devaluation or other adverse political or social developments.

Liquidity Risks – Certain investments that are classified as Alternative Investments, Private Placements, Non-Publicly Traded REITS, Limited Partnerships or New Issues may have limited liquidity and may not be available for immediate liquidations. These types of investments are offered pursuant to an offering memorandum. Clients should read the entire offering memorandum to fully understand these liquidity risks prior to investing.

Short Sale Risks – Positions in shorted securities are speculative and more risky than long positions (purchases) in securities because the maximum sustainable loss on a security purchased is limited to the amount paid for the security plus the transaction costs, whereas there is no maximum attainable price of the shorted security. Therefore, in theory, securities sold short have unlimited risk. Short selling will also result in higher transaction costs (such as interest and dividends), and may result in higher taxes, which reduce an account's return.

## **Disciplinary Information**

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On September 12, 2013, Mr. Lawrence Passaretti and FINRA concluded the settlement of a complaint. The complaint alleged one cause of action under NASD Rule 2110 concerning valuations in eight portfolio summaries sent to four customers during January 2006 through February 2008. The allegations concerning the portfolio summaries stem from an investment that Mr. Passaretti introduced to customers in 1997. The settlement brings to closure and fully resolves FINRA's complaint. In settling this matter,

FINRA did not find that Mr. Passaretti willfully violated any of its rules, including those relating to management of assets or communications with customers. Mr. Passaretti consented to the settlement without admitting or denying the allegations of the complaint and solely for purposes of this proceeding. Mr. Passaretti agreed to be suspended from associating with a FINRA member for 20 business days and pay a \$30,000 fine.

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

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Mr. Passaretti and other employees and/or investment adviser representatives of PPS, in their individual capacities, are registered representatives of a registered broker-dealer, APFS. As a result, they are licensed to effect securities brokerage transactions on a fully disclosed commission basis and may receive initial and/or annual commissions on sales of certain annuities. The fees that these individuals may receive for providing brokerage services are separate and apart from any fees that PPS may receive for the investment services it provides, which are discussed in “Fees and Compensation” above.

APFS has made loans to officers and employees of PPS, and the related promissory notes include a continued forgiveness provision whereby the loan is forgiven if the individual remains registered with APFS and is in active production as a registered representative. However, the promissory notes do not require specific production minimums for loan forgiveness nor do they provide that the loans will be forgiven at an accelerated rate if any specific production targets are achieved. Accordingly, PPS does not believe these arrangements create a conflict of interest or cause an incentive to place trades with APFS in exchange for having the loans forgiven.

In limited circumstances PPS investment adviser representative may also be investment adviser representative of American Portfolios Advisors, Inc. (“APA”), a registered investment adviser, and affiliate of APFS.

PPS has a written service agreement with APA pursuant to which APA provides administrative services to PPS in exchange for a percentage of the revenue PPS earns from clients.

Mr. Passaretti, as well as other employees and/or investment adviser representatives of PPS, in their individual capacities, are licensed insurance agents, and are licensed to sell a wide range of insurance products. The fees that these individuals may receive for providing insurance services are separate and apart from any fees that PPS may receive for the investment services it provides, which are discussed in “Fees and Compensation” above. An associate of PPS is also a principal of an accounting firm. The associate may refer accounting clients to PPS for investment advisory services and PPS may refer clients to the accounting firm for accounting services.

PPS recommends or selects other investment advisers or sub-advisers for its clients and PPS receives compensation as a percentage of the overall advisory fee that is set by PPS. PPS is compensated to monitor the investments and performance of the sub-adviser and the sub-adviser is compensated to execute and trade the assets within the account. PPS does not believe this arrangement presents a material conflict of interest for PPS since the total advisory fee is consistent with PPS’s advisory fee schedule.

PPS employees and/or investment adviser representatives may act as solicitors for other investment advisers, pursuant to which they receive compensation from such other investment advisers for recommending advisory clients to them.

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

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PPS has adopted a code of ethics as required by Rule 204A-1 under the Investment Advisers Act of 1940. PPS's code of ethics sets forth certain standards of business conduct that govern the personal investment activities of employees and officers of PPS, including the standard that the interests of advisory clients must be placed first at all times. The code of ethics requires access persons of PPS to report their personal securities transactions to PPS on a quarterly basis and their securities holdings upon commencement of employment (or upon becoming an access person) and annually thereafter. Access persons also must obtain approval from PPS's chief compliance officer before they acquire any ownership interest in any security in an initial public offering or limited offering. The code of ethics applies not only to transactions by the individual, but also to transactions for accounts in which the person has an interest individually, jointly or as guardian, executor or trustee, or in which the person or the person's spouse, minor children or other dependents residing in the same household have an interest. Compliance with the code of ethics is a condition of employment. The code of ethics requires all employees and officers of PPS to comply with applicable federal securities laws and to promptly report any violation of the code to the chief compliance officer. Clients may obtain a copy of PPS's code of ethics from PPS upon request.

Officers and employees of PPS may invest in shares of mutual funds and other securities, including alternative investments that are recommended for purchase or sale by clients. PPS officers and employees face a conflict of interest when they buy or sell securities at or about the same time that PPS buys or sells the same securities for client accounts or recommends that clients buy or sell the same securities, because PPS officers or employees could take advantage of the information regarding the client transactions and execute their trades prior to the clients (commonly called "front running"). However, PPS's code of ethics prohibits PPS access persons from buying or selling a security on a day during which a client has a pending buy or sell order in that security until the client's order is executed or withdrawn. This prohibition does not apply to equity securities of an issuer with a market capitalization greater than \$5 billion and average trading volume of at least \$1 million shares per day, because PPS does not believe the potential for front running is present.

PPS may invest client assets in alternative investments, including private securities offerings and private investment funds. Officers or employees of PPS as registered representatives of APFS may receive an upfront brokerage commission for the sale of these alternative investments. This practice presents a conflict of interest and gives PPS employees an incentive to recommend investment products based on the compensation received, rather than on a client's needs. To address the conflict that arises, for purposes of calculating the advisory fee for your account, the value of the alternative investment will not be included as an asset for the first twelve (12) months following your purchase. While the asset is held in your account, the alternative investment will be valued at the subscription price you paid for the investment. The companies issuing these alternative investments may be affiliated with officers or employees of PPS, officers or employees of PPS may also invest in these alternative investments, and these alternative investments will be illiquid for the duration of your investment, which means that for the duration of the investment you will not be able to sell or transfer the investment or there may be restrictions on your ability to sell or transfer the investment.

## **Brokerage Practices**

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By agreement and instruction from the client, PPS places transactions through APFS. This is often called a directed brokerage arrangement. Not all investment advisers require their clients to direct brokerage to a particular firm. Certain investment adviser representatives of PPS are also registered representatives of

APFS. Although PPS believes APFS provides favorable execution of transactions, by directing brokerage to APFS, PPS may be unable to obtain favorable execution of client transactions. However, since PPS's management fee covers charges for execution of transactions, clients will not pay more due to the direction of brokerage to APFS. Clients may, however, pay more or less for PPS's services than if they paid for investment advice and execution separately.

PPS may receive from APFS with or without cost (and/or at a discount) support services and/or products, certain of which assist PPS to better monitor and service client accounts. APFS may provide PPS investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by PPS in furtherance of its investment advisory business operations.

Certain of the support services and/or products that PPS may receive from APFS may assist PPS in managing and administering client accounts. Other services or products may not directly provide client account assistance, but rather may assist PPS to manage and further develop its business enterprise. PPS may use these services and other support in servicing any or all of its clients to different degrees and levels. PPS receives substantial benefit from APFS since the support APFS provides relieves PPS from having to maintain its own computer software and other back-office and recordkeeping systems.

## **Review of Accounts**

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PPS's principals and associates conduct periodic account reviews. PPS performs client reviews at least annually, which includes a year-to-date performance report and a prior calendar year performance report. Clients should advise PPS of any changes in their investment objectives and/or financial situation. All clients, in person or via telephone, should review their financial planning issues, investment objectives and account performance with us on an annual basis, as applicable.

The broker-dealer/custodian for client accounts provides clients with statements on at least a quarterly basis and confirmation notices as transactions are executed.

## **Client Referrals and Other Compensation**

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PPS may receive discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support and/or other products used by PPS in furtherance of its investment advisory business from certain distributors and/or wholesalers. These arrangements may present a conflict of interest for PPS since it has an economic incentive to do business with these distributors or wholesalers. However, since PPS's advisory services are provided in accordance with its screening process in choosing investments for its models, these distributors or wholesalers are not favored over other distributors, wholesalers or product sponsors.

From time to time PPS may enter into agreements providing cash compensation to persons who refer clients to PPS ("solicitors"). These agreements require that the solicitor meet the disclosure and other requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, as well as comply with other applicable laws and regulations including state securities laws. The terms of the agreements differ somewhat depending upon the circumstances, but generally provide either for compensation equal to a specified percentage of the fees received by PPS from clients referred, or for fixed compensation.

## **Custody**

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PPS is deemed to have custody of client assets for purposes of the Investment Advisers Act of 1940 when the custodian deducts PPS's advisory fee from client accounts as directed by the client. Clients will receive at least quarterly an account statement from the client's custodian and PPS urges clients to carefully review those statements.

## **Investment Discretion**

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PPS accepts discretionary authority to manage securities accounts on behalf of clients pursuant to an investment advisory agreement in which the client appoints PPS as its agent and attorney-in-fact with full investment power and authority on behalf of the client's account. Pursuant to this discretionary authority, PPS normally will determine which securities to buy or sell for the account, and the total amount of the purchases and sales. Clients may place limitations on this authority, including restricting or prohibiting purchases of certain types of securities.

## **Voting Client Securities**

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PPS will not exercise proxy-voting authority over the securities held in client accounts. The obligation to vote client proxies shall at all times rest with the clients. However, clients may contact PPS for advice or information about a particular proxy vote. PPS shall not be deemed to have proxy-voting authority solely as a result of providing such advice to a client. Should PPS inadvertently receive proxy information for a security held in a client account, such information shall be immediately forwarded to client.

## **Financial Information**

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PPS does not believe there is any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.