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Howard Financial Services, Ltd.

8350 Meadow Road, Suite 181  
Dallas, Texas 75231

(214) 346-0785

Fax: (214) 346-0794

[www.howardfs.com](http://www.howardfs.com)

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This Brochure provides information about the qualifications and business practices of Howard Financial Services, Ltd. If you have any questions about the contents of this Brochure, please contact us at (214) 346-0785 and/or by e-mail at [info@howardfs.com](mailto:info@howardfs.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Howard Financial Services, Ltd. is a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. Additional information about Howard Financial Services, Ltd. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



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## **Item 2 – Material Changes**

The following are the material changes that have been made to our Brochure since our last annual update (December 2015).

**Item 10 - Other Financial Industry Activities and Affiliations** – All of our owners are affiliated with the general partners of forty-eight limited partnerships, three of which were formed since our last annual update. We recommended these partnerships for certain clients. The newly created partnerships listed below invest in real estate related assets.

HMPF 2016, LP

HFS Credit Opportunity Fund – III, LP

HFS Lakehills Plaza, LP



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#### **Item 4 – Advisory Business**

Howard Financial Services, Ltd. was founded in 1994 as a fee-only wealth management firm. We provide personalized wealth management services to individuals, high net worth individuals, pensions and profit sharing plans, trusts, estates, charitable organizations, pooled investment vehicles and small businesses. Wealth management services are provided through our HFS Wealth Management division. Howard Financial Services also serves as the investment advisor to affiliated private investment offerings through our HFS Capital Partners affiliate. We do not sell, nor are we affiliated with any firms that sell, annuities, insurance, mutual funds, or other commissioned products. No commissions or finder's fees in any form are accepted.

We offer advice that may include: determination of financial objectives, identification of financial problems, cash flow management, tax planning, insurance review and needs analysis, investment review and/or management, education funding, retirement and estate planning. In addition, we help small businesses plan for succession, structure employee benefits, and consult on merger and acquisition transactions.

We design financial plans to help you define and achieve your financial goals. The plan may include, but is not limited to:

- A net worth statement
- A cash flow statement
- A review of investment accounts, including asset allocation and providing repositioning recommendations
- Strategic tax planning
- A review of retirement accounts and plans including recommendations
- Cash flow projections for one or more retirement scenarios
- A review of insurance policies and any recommendations for changes
- Estate planning review and recommendations
- Education planning with funding recommendations

Investment advice may be provided as part of a financial plan. Implementation of the recommendations is at your discretion.

Most clients hire us to manage their investments and be responsible for investment implementation and oversight. With this service, we prepare an Investment Policy Statement that documents aspects of your financial affairs. We set realistic and measurable goals and define objectives to reach those goals. You may impose restrictions on investment



in certain securities, sectors or types of securities. As your goals and objectives change over time, we suggest changes and implement them as appropriate.

Portfolio review services, for investments not under direct management of HFS, are also provided on an hourly basis.

Principal owners of Howard Financial Services, Ltd. are James N. Howard, John T. Howard as trustee of The Thomas 1991 Investment Trust, Stephen J. Howard as trustee of The James 1991 Investment Trust, Amy Howard Parker as trustee of The AEH 1991 Investment Trust, , and Hunting Oak Investments, LLC which is managed by Shaun Dowling.

As of December 31, 2016, Howard Financial Services, Ltd managed approximately \$881 million in assets. Approximately \$540 million is managed on a discretionary basis, and \$341 million is managed on a non-discretionary basis.

## **Item 5 – Fees and Compensation**

We base our fees on a percentage of assets under management, hourly charges, or fixed fees. Fees are billed in arrears and are negotiable.

We price financial plans according to the degree of complexity associated with your situation. We define the scope of work and provide an estimated cost (based on our estimate of the time involved and the level of personnel preparing the plan) for the plan preparation prior to starting the engagement. Half of the estimated fee is due at the initiation of the engagement as a retainer and the balance is due upon completion.

The scope of work and fee for investment management services are provided in writing in our Investment Advisory Agreement prior to starting the engagement. The fee for ongoing investment advice is based on a percentage of investments under management according to the following schedule:

1.00% on the first \$2,000,000;

0.75% from \$2,000,001 to \$4,000,000; and

0.50% on the assets above \$4,000,000

The minimum annual investment management fee is \$5,000. Current client relationships exist where the fees are higher or lower than the fee schedule above.

Management fees are calculated and paid quarterly, in arrears, based on the average daily balance of billable assets in client accounts. Accounts initiated or terminated during a



calendar quarter will be charged a prorated fee. Most clients authorize us to directly debit fees from their accounts; however, you can be billed directly by HFS as well.

Our fees are exclusive of costs and expenses imposed by custodians, brokers, third party investments and other third parties. These include fees charged by managers, custodial fees, transfer taxes, odd-lot differentials, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds, money market funds and exchange traded funds also charge internal management fees which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to our fee. We do not receive any portion of these commissions, fees, and expenses.

Item 12 further describes the factors that we consider in selecting or recommending broker-dealers and determining the reasonableness of their compensation.

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

Some of the investments we recommend are managed by entities affiliated with HFS and include performance-based fees calculated on a share of profits or realized appreciation of an investment typically in excess of a minimum return threshold. Affiliates receive this compensation. This creates a conflict of interest with our clients because the affiliates may earn higher fees than would be earned under our investment management fee structure. You are under no obligation to invest with an HFS affiliate. Clients investing with HFS affiliates are provided documentation of the fee structure through separate offering materials and subscription documents. Investments containing performance fees are only offered to qualified clients who have either \$1 million under our management or net worth exceeding \$2 million excluding their primary residence. See Item 10, "Other Financial Industry Activities and Affiliations," for further discussion.

#### **Item 7 – Types of Clients**

We generally provide investment advice to individuals, high net worth individuals, pension and profit-sharing plans, trusts, estates, charitable organizations, and affiliated entities.

The minimum account size for investment management is \$500,000, which equates to an annual fee of \$5,000.

We have discretion to waive the account minimum.



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

Our investment management clients can be exposed to a variety of investments including but not limited to: stocks, bonds, real estate (equity and debt), mutual funds, commodities, convertible bonds, master limited partnerships, international investments and private offerings. All investing involves risk, including the risk of loss, that you should be prepared to experience. We attempt to structure portfolios in such a way as to reduce risks; however, no guarantees can be made.

Security analysis methods may include: fundamental analysis, technical analysis, statistical analysis, comparative analysis, macro analysis and other quantitative and qualitative methods. Our main sources of information for analysis include: financial publications, research materials prepared by others, peer networks, corporate rating services, annual reports, prospectuses, SEC filings, company press releases and third party data vendors.

Our primary investment strategy is strategic asset allocation of equity, fixed income and alternative investments.

*Equity investments* are accessed primarily through the use of no-load mutual funds and to a lesser degree separately managed accounts, private offerings, when appropriate, and individual securities. Material risks of equity investments include:

- **Market Risk:** The price of a security 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 events may trigger market events.
- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, rising interest rates may have a negative effect on a security's value.
- **Inflation Risk:** When any type of inflation is present, a dollar today will buy more than a dollar next year, because purchasing power is eroded by inflation.
- **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.
- **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 and producing oil, 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 who buy electricity no matter what the economic environment is like.

- **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. Investments in private offerings are generally considered to be illiquid.
- **Financial 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.
- **Tax Risk:** The risk a taxing authority will change tax laws that will negatively affect an investment.
- **Timing Risk:** The risk that factors cause you to buy or sell an investment at an inappropriate time.

*Fixed income investments* are accessed through the use of no-load mutual funds, separately managed accounts, individual securities and private offerings, when appropriate. Risks of investing in fixed income strategies include the same risks previously discussed with equity investments. Additional risks associated with fixed income strategies include:

- **Credit/Default Risk:** The risk that a borrower will be unable to make a payment of interest or principal in a timely manner.
- **Reinvestment Risk:** The risk that cash flow will not be able to reinvest at the same rate as the existing investments.
- **Prepayment Risk:** The risk that a security is paid off prior to maturity and the proceeds will have to be invested in an uncertain environment.
- **Interest Rate Risk:** Low interest rates may decrease the ability to sustain an income stream through fixed income securities.

We have and will recommend the use of private fixed income offerings to complement public fixed income investments, when appropriate. One strategy involves the purchase of loan participations in privately originated loans secured by real estate. Risks inherent with this strategy include all those previously discussed and additional risks due to the private nature of these offerings. Clients involved with these offerings should refer to the offering documents for more specific details.

We think of *alternatives* as investments that tend to display reduced correlation to traditional equity and fixed income investments over the long-term. They are included in portfolios to provide diversification and return opportunity. Alternative investment vehicles





include: some mutual funds, individual securities and private offerings. The underlying investment types may include preferred stock, convertible bonds, master limited partnerships, tax liens, commodities and real estate. All of the risks previously discussed with equities and fixed income investments are inherent with alternative investments.

We have and will recommend investments in private real estate offerings, when appropriate. Real estate investments carry a unique set of risks that need to be considered prior to investment. Potential risks include interest rate, market, liquidity, development and default. Clients considering these offerings should refer to the offering documents for more complete details.

No investment is without risk. The risk of loss is real and needs to be adequately considered prior to making any investment. Past performance is no guarantee of future results.

#### **Item 9 – Disciplinary Information**

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

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

An affiliated accounting firm, Howard, LLP, from time to time will provide accounting services, such as tax preparation, tax planning, and business consulting to clients of Howard Financial Services, Ltd. We refer clients to Howard, LLP for their accounting needs, which creates a potential conflict of interest. You are under no obligation to use the services of Howard, LLP. We will work with the accounting firm of your choice. Any accounting firm, including Howard, LLP, will charge its own fees.

All of our owners are affiliated with the general partners of forty-eight limited partnerships. We recommend these partnerships as investments for certain clients. This creates a potential conflict of interest because, as members of the general partners, our owners also receive fees from these partnerships. This conflict is mitigated through adequate disclosure, exclusion of the partnerships from our investment management fee calculations and the fact that no client is required to invest in any of the offerings.

The general partners of these partnerships are reimbursed for administrative expenses and some receive a management fee equal to 1% to 1.5% of invested capital. Certain partnerships also pay the general partner an up-front due diligence or management fee, and certain funds also pay the general partner a performance fee after the achievement of defined performance hurdles.



Howard Financial Services generally receives a monthly fee from these partnerships for advisory services rendered. The fees range from \$500 to \$5,000 per month.

The above partnerships are recommended to investors with a certain level of investment sophistication and who meet certain net worth and/or annual income requirements. All potential investors are provided offering documents prior to making an investment.

The offering periods for our partnerships range from 30 days on the short end, to 12 months or more on the long end, the mortgage lending funds, for example, have longer offering periods. As such, depending on the launch date of the fund and the underlying investment type, some but not all funds may be open to new investors at any given time. This is not a solicitation.

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

We adopted a Code of Ethics for all employees of the Firm describing the Firm’s standard of business conduct and fiduciary duty. The Code of Ethics includes provisions relating to the confidentiality of your information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading policies and procedures. All of our personnel must acknowledge and abide by the terms of the Code of Ethics.

We anticipate that in appropriate circumstances and consistent with your investment objectives, we may recommend to you the purchase or sale of partnership interests in which our affiliates, directly or indirectly, have a position of interest. These partnerships are described more fully in Item 10, “Other Financial Industry Activities and Affiliations.” Our employees, directors, and partners often invest in these same limited partnerships. Because of the nature of limited partnership investing, these investments by employees, partners and directors do not influence pricing.

Subject to satisfying our policy and applicable laws, our partners, directors and employees may trade for their own accounts in securities which are recommended to and/or purchased for you. The Code of Ethics is designed to ensure that the personal securities transactions, activities and interests of the employees will not interfere with (i) making decisions in your best interest and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. The Code requires that employees receive prior approval before investing in private placements (with the exception of private placements offered by HFS) and initial public offerings. Nonetheless, because the Code of Ethics permits



employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between HFS, our personnel and you.

You may request a copy of the firm's Code of Ethics by contacting Terry Ishmael at (214) 346-0762.

## **Item 12 – Brokerage Practices**

We request that you establish brokerage accounts with the Schwab Adviser Services division of Charles Schwab & Co., Inc., "Schwab", or TD Ameritrade Institutional, a subsidiary of TD Ameritrade Holding Corporation, ("TDA"), each FINRA registered broker-dealers, members SIPC, to maintain custody of your assets and to effect trades for your accounts. We are independently owned and operated and not affiliated with any broker-dealer.

We selected Schwab Adviser Services and TD Ameritrade (the custodians) to hold assets based upon proven integrity and financial responsibility of the firms and the best execution practices of orders at reasonable transaction costs. Neither custodian may have the lowest transaction costs in the industry, but we feel they are reasonable in light of additional services they provide. We do not receive fees or commissions from any custodian.

The custodians provide us with access to their institutional trading and custody services, which are typically not available to retail investors. These services generally are available to independent investment advisers on an unsolicited basis, and at no charge to them. The Custodians' brokerage services include the execution of securities transactions, custody, research and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

The custodians generally do not charge separately for custody services but are compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through them or that settle into their accounts.

The custodians also make available to us other products and services that benefit us, but may not directly benefit our clients' accounts. Many of these products and services may be used to service all or some substantial number of our accounts, including accounts not maintained at either custodian. Custodian products and services that assist us in managing and administering clients' accounts include software and other technology that (i) provide access to account data (such as trade confirmations and account statements); (ii) facilitate trade



execution and allocate aggregated trade orders for multiple accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of our fees from our clients' accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

Custodians also offer other services intended to help manage and further develop our business enterprise. These services may include (i) compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. They may make available, arrange and/or pay third-party vendors for these types of services rendered to us. They may discount or waive fees they would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to us. They may also provide other benefits such as educational events or occasional business entertainment for our personnel. In evaluating whether to recommend or require that you custody your assets at Schwab or TDA, we may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors we consider and not solely on the nature, cost or quality of custody and brokerage services provided by the custodians, which may create a potential conflict of interest.

### **Item 13 – Review of Accounts**

Our investment management services provide ongoing monitoring of your accounts. We manage your investments in light of current market conditions, your goals, objectives, and risk tolerance. Our financial advisers will authorize trades when necessary within parameters set by the investment research team and in compliance with your Investment Policy Statement. Broad investment considerations are determined by the investment committee. Members of the committee include: John Howard, Stephen Howard, Will Gray, Randall Horton and Jim Howard.

You will receive monthly statements directly from the custodian. The statements list the portfolio holdings held by the custodian, priced at month end, and transactions that occurred during the month. We provide you with a quarterly performance report showing portfolio holdings (priced at quarter end for public securities and estimated values for private securities) and portfolio performance over varying time periods as compared to various market indexes.



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

We receive referrals from current clients, estate planning attorneys, accountants, personal friends of employees and other sources. We are a member of the National Association of Personal Financial Advisers (NAPFA), which is an association of fee only financial planners. NAPFA has a referral program from which we also receive referrals for prospective clients. We do not compensate these referring parties for the referrals. Some HFS Personnel may receive compensation based on assets they bring to the firm. We do not accept referral fees or any form of remuneration from other professionals when we refer a prospect or client to them. Please refer to Item 10 for discussion of fees the general partners receive on the private investments we manage.

#### **Item 15 – Custody**

We do not take custody of your assets with the exception of our affiliates and those assets invested in HFS affiliated private offerings (see item 10, Other Financial Industry Activities and Affiliations for a full list of these HFS partnerships). The private offerings are audited annually by a Public Company Accounting Oversight Board (PCAOB) registered and inspected accounting firm. The audit reports are distributed to all investors of these offerings upon completion.

From time to time, we may advise you to invest in other non-affiliated private offerings. These offerings provide statements directly to you as defined in the offering documents.

Assets, with the exception of the private offerings mentioned above, are held at qualified custodians that directly provide you with statements at least quarterly. These statements are delivered to the address of record which can be a physical or electronic (email) address. Investors in the HFS private offerings receive investment updates at least quarterly from the manager of the offering.

Upon receipt of your quarterly report from us (as described in Item 13, Review of Accounts), we urge you to carefully review the reports and compare them to the custodial account statements provided by your account custodian. Our reports vary slightly from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

#### **Item 16 – Investment Discretion**

We typically receive discretionary investment authority at the onset of an advisory relationship. The discretionary authority is granted with the execution of the Investment



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Advisory Agreement, and allows us to make public investments for you without receiving your permission before each trade. When selecting securities and determining amounts to trade, we observe the investment policies, limitations and restrictions that you may request in your written Investment Policy Statement as discussed previously in Item 4, Advisory Business. The investments in private offerings are non-discretionary and are governed by separate agreements and subscription documents.

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

You will receive proxy or other solicitations directly from the custodian. As a matter of firm policy and practice, we do not have any authority to and do not vote proxies for you. You retain the responsibility for receiving and voting proxies for any and all securities maintained in your portfolios. You are welcome to contact us with questions about a particular solicitation.

#### **Item 18 – Financial Information**

We do not have any financial impairment that will preclude the firm from meeting contractual commitments to you and have not been the subject of a bankruptcy proceeding.

A balance sheet is not required to be provided because we do not serve as a custodian for client funds or securities, and do not require prepayment of fees of more than \$1,200 per client, and six months or more in advance.