

SOCHA FINANCIAL GROUP  
SEC Form ADV Part 2A  
Firm Brochure (Brochure)

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This Brochure provides information about the qualifications and business practices of Nancy A. Socha & Associates, LLC, which conducts business under the name Socha Financial Group, referred to as the “firm”. If you have any questions about the contents of this brochure, please contact us at Telephone: 607-962-0605 or Email: [nsocha@nsocha.com](mailto:nsocha@nsocha.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.

Socha Financial Group is an investment adviser registered with the SEC. The firm’s registration does not imply that the firm or its advisory personnel possess a certain level of skill or training.

Additional information about the firm is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2 - MATERIAL CHANGES

Since Socha Financial Group's last annual update dated March 31, 2016, there have been no material changes made to the firm's Brochure. Other amendments were made to this brochure which are not discussed in our summary and consequently we encourage you to read the Brochure in its entirety.

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## ITEM 4 - ADVISORY BUSINESS

The firm, which was founded in 1983, was re-organized as a limited liability company under the laws of New York State in 2005. The principal owners of the firm are Nancy A. Socha and Louis S. Socha, Jr.

We provide financial planning, investment advisory and tax preparation services for individuals and families, as well as for estates, trusts and charitable organizations. We also provide tax planning services to individuals. We also make life insurance and long term care insurance products available to our clients.

### *Financial Planning Services*

Each financial planning engagement involves an initial meeting for data gathering with the financial planning staff. The financial planning process involves an assessment of the specific needs of each client including, but not limited to the following: retirement planning, college planning, investment planning and investment allocation of employee plans, general tax planning and planning related to the dissolution of marriage. The process involves follow-up meetings and consultations, and culminates in the delivery of a comprehensive financial plan.

### *Investment Advisory Services*

We provide investment management services to individuals, high net worth individuals and charitable organizations on both a discretionary and non-discretionary basis.

Each client engagement involves the execution of an investment advisory agreement that specifies whether the firm will manage the client's assets on a discretionary or non-discretionary basis. The portfolio management process begins with an evaluation of the specific investment needs of a client, based on these factors, among others: the client's tolerance for risk, investment time horizon, cash flow needs, tax considerations, and such reasonable restrictions as a client may wish to impose on the management of the account. Following an evaluation of a client's specific needs, investment objectives are formulated and the investment portfolio is structured.

Most of the firm's clients engage the firm to manage their investment portfolios on a discretionary basis, which involves the execution of a limited power of attorney, pursuant to which the firm will select investments that it deems most appropriate for a client's situation. In instances where the firm constructs an investment portfolio on a non-discretionary basis, the

firm will make investment recommendations that may or may not be accepted by the client. In each instance investment advice is tailored to the specific needs of the client. As of December 31, 2016, assets under management were as follows:

Discretionary	\$213,848,134
Non-Discretionary	0
Total	\$213,848,134

Generally, we construct most client portfolios to consist of mutual funds, Exchange Traded Notes (ETNs), and Exchanged Traded Funds (ETFs). Mutual Funds are purchased on a no-load or load-waived basis. There may be a transaction fee for the purchase of ETNs and ETFs. Occasionally, an asset allocation strategy requires the use of individual stocks, bonds or other securities.

We tailor our advisory services to the individual needs of the firm's clients. An investment policy statement and an asset allocation strategy are developed based on an evaluation of the client's specific investment objectives, investment time horizon, tolerance for risk and other relevant factors. Each client may impose restrictions with respect to investment in certain securities or types of securities. These restrictions are noted in the client's Investment Policy Statement. More information on the different types of portfolios are provided in the "Method of Analysis, Investment Strategies and Risk of Loss" section (Item 8).

#### *Tax Preparation Service*

We offer a tax preparation service for our clients. The returns that we prepare consist primarily of the Federal 1040 and supplemental schedules and the accompanying state returns for individuals. We also complete certain trust and estate income tax returns.

#### *Tax Planning Services for Individuals*

We also offer tax planning services for individuals who might benefit from an analysis of their specific tax situations. In connection with these services, we may, from time to time, recommend that a client consider participating in an investment program that may provide a tax benefit for the client. These recommendations customarily involve the purchase of a security in a transaction that is intended to be exempt from the registration requirements of the Securities Act of 1933 (Exempt Transaction). If a client purchases a security in an Exempt Transaction, we will not hold the security directly or indirectly. Nor will we have any authority to possess the security. The tax aspects of an investment in these products are complex, and the potential benefits from an investment in these products will vary, depending upon an individual's circumstances. Securities issued in Exempt Transactions

are generally subject to restrictions on resale, and, as such, are illiquid. We encourage our clients to read offering materials associated with these products in their entirety. We do not provide due diligence reports or tax opinions to individuals considering such investments. We do not receive any compensation from the issuers of these securities or their affiliates and/or agents. The purchase of a security in an Exempt Transaction for the purpose of deriving a potential tax benefit does not constitute a complete investment program.

### *Insurance Products and Services*

As part of the financial planning process, insurance needs may be identified. The client may request that the Firm help in the identification and procurement of insurance to meet this need. If this occurs, we use KAFL, a privately-owned insurance brokerage Firm headquartered in Rochester, NY. KAFL is the general insurance broker we use to assist the Firm in identifying the proper coverage choices for the insurance need identified and to identify a number of insurance carriers that may be able to implement our insurance recommendations. Additionally, KAFL provides comparison quotes and coverage. This gives the Firm's clients the most flexibility in choosing the type of coverage they wish to carry as well as have the ability to see the differences in premiums and commissions. We then review the information provided by KAFL with our clients. From this information, the client will choose whether they wish to continue with the application process. Our clients are under no obligation to accept our recommendations for insurance coverage and are free to purchase insurance products from other vendors. Nevertheless, the Firm has a financial incentive to recommend the purchase of insurance products through KAFL because it receives commissions on the sale of these products.

## ITEM 5 - FEES AND COMPENSATION

### *Fees for Portfolio Management Services*

The annual investment advisory fee is generally up to 1.25% of the market value of the assets that the Firm has been instructed to manage. This fee is paid quarterly, in advance, based on the value of the assets on the last Friday of the previous quarter end. For purposes of calculating our fee, the quarter begins the month in which funds are received into the account. The Firm does not have a minimum investment size or fee. The investment management fee can be negotiated based on criteria such as the size of the account, future additional assets, related accounts and account composition.

The fees described above cover fees only for services that we provide. The fees do not cover any other fees which may be incurred in connection with the implementation of a client's investment program, including, but not limited to, the following: (1) the fees and costs associated with the purchase of investment products such as mutual funds; (2)

transaction costs associated with the purchase of exchange-traded funds (ETFs), exchange-traded notes (ETNs) and individual stocks and bonds; and (3) custody costs.

Most client portfolios are structured to consist of mutual funds, ETFs and ETNs. Because most mutual funds are purchased on a no-load or load-waived basis, there is generally no sales charge or transaction fee involved in the purchase of mutual funds. Nevertheless, mutual funds have ongoing expenses (e.g. management fees) which clients pay indirectly on an ongoing basis. We do not receive compensation of any kind from mutual funds or their affiliates under circumstances where a client implements an investment recommendation that results in the purchase of mutual funds.

If a client leaves the management program prior to the end of the quarter of their billing cycle, a prorated portion of the management fee is returned to the client. This value is calculated by summing the numbers of days from portfolio inception to the first billing plus the number of days the portfolio was managed in the last quarter. This value is subtracted from the number of days in a quarter (91.25), then divided by the number of days in the quarter and then multiplied by the previous quarterly fee. A check is then sent to the client for this amount with documentation of the calculation.

This Firm does not believe that it has any conflicts of interest with our clients in the handling of the fee arrangement or the investment choices selected since most portfolio investments consist of mutual funds, EFTs or ETNs. The fee arrangement is disclosed in advance in the Investment Advisory Agreement and reflects the assets that are being managed, the timing of the fee and the process for withdrawing the fee from the account. Clients may choose to pay the fee separately rather than having it withdrawn from their account.

#### *Fees for Other Services*

The Firm receives compensation for other services that it provides (i.e., tax preparation, tax planning and financial planning) in the form of a fixed fee or a fee that is calculated at an hourly rate, depending on the type of service selected and the scope and complexity of the services provided. The Firm also receives commissions for any insurance product requested by the client. For clients meeting the criteria in the investment management fee agreement, these fees are waived and are part of the investment management fee which covers fees for the management of the assets as well as financial planning and tax preparation services as needed.

### ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

We do not provide any services for which a charge is made based upon performance-based fees.



## ITEM 7 - TYPES OF CLIENTS

Our clients consist of individuals, high net worth individuals, charitable organizations and small businesses. We do not require a minimum account size or a minimum annual fee to manage these assets.

## ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

This section of our Brochure describes the methods of analysis and investment strategies that we utilize in formulating investment advice and managing client portfolios, and the material risks involved.

We provide investment management services to individuals, high net worth individuals and charitable organizations on both a discretionary and non-discretionary basis. Each client executes an investment advisory agreement that specifies whether the Firm will manage the client's assets on a discretionary or non-discretionary basis. As noted in Section 4 (Advisory Business), clients who elect to have their investment portfolios managed on a discretionary basis pursuant to a limited power of attorney should be aware that they may place reasonable restrictions on the management of their portfolios. We encourage clients who provide discretionary trading authority to the Firm to read this section of our Brochure very carefully and to apprise themselves of the risks attendant to the use of various portfolio management strategies and to let us know if they wish to restrict the Firm's ability to purchase any particular types of securities for their accounts. For example, as discussed more fully below, we may employ certain trading strategies from time to time for hedging purposes or to enhance portfolio returns. Clients who may have reservations about such strategies should inform us immediately of their concerns.

## THE INVESTMENT PROCESS

Our investment process generally begins with the development of a financial plan for each client. This process involves an evaluation of the specific financial and investment needs of the client, such as the client's tolerance for risk, investment time horizon, cash flow needs, and tax considerations. Once we have evaluated a client's specific needs, we formulate investment objectives and structure the investment portfolio.

Our goal in structuring each investment portfolio is to utilize an investment strategy that seeks to achieve the client's goals at an acceptable level of risk. Our challenge is to construct investment portfolios that provide favorable risk/reward characteristics based on each client's financial objectives, investment time horizon, risk tolerance and other relevant criteria. Asset allocation is a primary factor in determining the risk/reward and overall portfolio performance.

## TYPES OF INVESTMENT PORTFOLIOS

Our objective is to create portfolios that will balance our clients' need to preserve capital with their desire to achieve respectable growth of assets. To achieve this objective, we segregate asset classes (and investments within those asset classes) into two groups: a reduced risk asset group and a risk asset group. Essentially, the reduced risk asset group is comprised of assets that have significantly lower volatility or lower standard deviation than the S&P 500. Their volatility levels would be more like a US Aggregated Bond Index. The risk asset group is a group of investments that display risk characteristics with volatility or standard deviation significantly higher than the reduced risk assets. Their volatility may be less than or greater than that of the S&P 500.

The table below illustrates the broad range of investment vehicles that we may use to construct client portfolios and our evaluation of their relative risks. We note that the categories are described in general terms. We encourage clients and prospective clients to request additional information about these types of investments. All investment involves the risk of loss, and there can be no assurance that the investments chosen for a particular client portfolio will perform as anticipated.

<b>Reduced Risk Assets</b>	<b>Risk Assets</b>
Cash	Domestic & Foreign Large Cap Equities
Investment Grade & US Government Bonds	Domestic & Foreign Mid/Small Cap Equities
Foreign & Emerging Market Bonds	Emerging Market Equities
High Yield & Floating Rate Bonds	Real Estate Investments
Municipal Bonds	Commodities
Long Short Equity Funds	Long Term Treasuries
Alternative Investments with Low Volatility	Hedge Vehicles
Strategic Allocation Bond Funds	Volatility Exchange Traded Notes
Non-Traded Alternative Investments which have favorable Risk/Reward Characteristics	Liquid Alternative Investments

	Non-Traded Alternative Investments
	Sector Funds
	Currencies

Once we have developed an asset allocation strategy for a portfolio, we implement that strategy primarily through the purchase of mutual funds and/or exchange traded funds (ETFs) or notes (ETNs) or Non-Traded Alternative Investments. These pooled investment vehicles provide exposure to the various asset classes. Mutual funds are purchased on a “no load” or “load waived” basis. Transaction fees may apply to the purchase of ETFs and ETNs. In addition, we may occasionally purchase stocks, bonds, CDs or other investment vehicles. *Because we seek exposure to these asset classes indirectly by investing in pooled investment vehicles such as mutual funds and ETFs, we encourage clients to read the prospectus for each fund and retain it for future reference.* The investment advisers for these portfolio funds have broad flexibility and may utilize various investment strategies (e.g. options, futures, leverage and derivatives) in seeking to achieve the investment objective of a fund. We employ a rigorous process in selecting mutual funds, ETFs and ETNs that take into account a number of factors including historical performance data, manager track record, downside risk, relative performance and numerous other performance characteristics. In addition, we seek to select investments which are complementary to other positions in the portfolio; striving to improve the overall risk reward characteristics of the portfolio. Nevertheless, past performance is not a guarantee of, and is not necessarily indicative of, future investment results. There can be no assurance that the objective of any investment fund selected for a client portfolio will be achieved, or that the fund will perform as anticipated in a client portfolio.

We construct portfolios that range from the most conservative portfolio to the most growth oriented portfolio. Our most conservative portfolio consists entirely with portfolio holdings that we classify as “reduced risk assets,” and our most growth- oriented portfolio consists entirely of portfolio holdings that we classify as “risk assets.” Most client portfolios are structured to balance the asset allocation between “reduced risk assets” and “risk assets”. For example, we may structure a portfolio to consist of 60% “risk assets” and 40% “reduced risk assets”. The portion of the portfolio allocated to “reduced risk assets” will generally be comprised of holdings which have complementary characteristics to provide improved risk reward and reduce volatility. The portion of the portfolio allocated to “risk assets” will generally consist primarily of mutual funds which are actively managed or ETFs which may be passive investments. The volatility of the risk asset portfolio is expected to be similar to equity markets.

Our objective is to build rigorous, all weather portfolios which provide good market participation in rising equity markets but also provide downside risk protection in more turbulent markets. Selecting the proper allocation to reduced risk assets and risk assets is critical in managing downside risk. In our investment selection process, we research a very broad range of liquid investments (mutual funds, ETFs, ETNs) and non-traded

alternative investments. For the risk assets, our investment selection process focuses on identifying opportunities which provide similar returns to the S&P 500 with less investment risk or volatility. In addition, we may strategically incorporate investments which we believe have more favorable investment returns; however, their volatility may be greater than the S&P 500. After a group of final investment candidates are selected, we utilize analytical tools in combination with experience and judgement to build a portfolio which we believe will provide favorable risk reward characteristics. For the reduced risk portfolio, we follow a similar process as the risk asset portfolio except our benchmark is the lower volatile US Aggregate Bond Index.

In connection with our strategies to enhance portfolio performance, we may utilize certain mutual funds in client portfolios that are different from, and riskier than, most mutual funds. All mutual funds select a broad-based securities market index, or “benchmark,” to which their performance will be compared. For example, certain equity mutual funds, commonly known as “index funds,” seek to replicate the performance of an index such as the S&P 500. Other equity mutual funds may seek to outperform the performance of the S&P 500. Investments in these funds, which are more actively managed, generally carry a higher degree of risk than an investment in an index fund.

Under certain market conditions, we may allocate a portion of a client’s portfolio to “alternative” mutual funds and ETFs or non-traded alternative investments. These investments may carry a higher degree of risk than an index fund that seeks to replicate the performance of an index or that of an actively managed fund that seeks to outperform its chosen benchmark. These “alternative” mutual funds are subject to increased volatility, carry a substantial risk of loss, and require continuous monitoring.

*Inverse Funds.* We may allocate portfolio assets to one or more mutual funds that seek to provide investment results that are inverse to the performance of a specific benchmark (e.g. S&P 500) on a daily basis. In effect, the chosen benchmark is the inverse of the S&P 500. Because these funds seek daily inverse investment results, the return of the fund for a period longer than a single trading day will be the result of each day’s compounded returns over the period, which will very likely differ from the return of the fund’s benchmark for that period.

*Leveraged Funds.* We may also allocate portfolio assets to one or more mutual funds and/or ETFs that seek to provide “leveraged” returns on a daily basis. These funds seek to provide investment results that are expressed as a multiple of the performance of a specific benchmark (e.g. 1.5X S&P 500) on a daily basis. The portfolio manager’s use of leverage will generally cause the performance of the fund to vary from that of its benchmark over a period of time greater than one day. Thus, the return on this type of fund in a client portfolio that holds the investment for a period longer than a single trading day will not replicate that of the fund’s stated investment objective (e.g. 1.5 x the performance of the S&P 500). Utilization of these types of investments is extremely risky because the success of the strategy is dependent on our ability to understand the risks associated with the use of leverage, our ability to understand the consequences of

seeking daily leveraged investment results, and our ability to actively monitor and manage portfolios that include these investments on a daily basis.

## RISKS OF LOSS

All investments involve the risk of loss that clients should be prepared to bear. The success of our investment process is dependent upon a number of factors including among others, the accuracy of our analysis of our clients' needs and the success of the investment strategies formulated. Our ability to structure client portfolios with favorable risk/reward characteristics is dependent on our ability to develop suitable asset allocation strategies and to adjust those strategies as needed, as well as our ability to select investments that will be successful in implementing those strategies.

### *Analysis of Client Needs*

We employ a comprehensive analysis of each client's financial and investment needs in connection with our formulation of suitable investment strategies. Our ability to evaluate current and future financial circumstances may be compromised by inaccurate or incomplete data, or our inability to successfully execute complex investment strategies on a consistent basis. We encourage our clients to inform us of changes that may affect their current or future financial circumstances.

### *Asset Allocation Strategies*

In formulating asset allocation strategies for our clients, we take into account the risk/reward characteristics of each asset class. Nevertheless, each asset class is subject to its own particular risks and the significance of those risks can change during different market cycles. All client portfolios are subject to the risk that the asset allocation strategy formulated may not be successful or that adjustments to the asset allocation strategy may not be timely made.

- *Cash and Cash Equivalents.* Our investment strategies feature a bias toward reduction of downside risk and preservation of capital during declining markets. During such periods, as a temporary defensive measure, our portfolios may feature substantial positions in cash and cash equivalents. This emphasis on reducing downside risk, however, may have the effect of limiting upside potential in strong markets. Cash equivalents are characterized by low investment returns and are subject to the risk of loss of purchasing power during periods of inflation.
- *Equities.* Portfolios structured for growth will feature investments in equities (i.e., to varying degrees). Investments in equities involve the potential for higher investment returns. Investing for higher returns also involves higher levels of risk and greater potential for loss of principal. Stocks fluctuate in price and their short-term volatility at times may be substantial. In general, equity sub-classes tend to follow general market trends, but the magnitude of change and volatility of the sub-classes can vary significantly. For example, stocks of growth companies or, emerging and foreign markets, may be more volatile than other stocks. Small-cap companies are generally newer companies with limited operating histories. While

these stocks may offer greater opportunities for long-term capital appreciation than larger, more established companies, they involve a substantially greater risk of loss.

- *Fixed-Income Securities or Debt Securities.* Portfolios structured for receipt of current income and preservation of capital will generally feature fixed-income investments. Fixed-income investments may include, among others, bonds and certain preferred stocks, which also have an equity component. Bonds and other fixed-income vehicles generally tend to have lower volatility than equity investments. Fixed-income investments are generally subject to a variety of risks including, among others, credit risk, interest rate risk, pre-payment risk and extension risk. Lower-rated or unrated fixed-income securities are subject to greater risk of loss than investment grade fixed-income securities.
- *Alternative Investments.* We may include “alternative investments” in a portfolio if we determine that they have favorable risk/reward characteristics. We define “alternative investment” vehicles broadly as investments that we believe can potentially provide improved returns per unit of risk. Examples of some alternative investments are market neutral equity funds, long short equity funds, commodities, currencies, real estate products, non-traded alternative investments plus other investment vehicles. Certain alternative investments, such as “commodities,” include assets that have tangible properties (e.g. precious metals). When we seek exposure to alternative investments such as commodities we purchase investments, such as mutual funds or ETFs that provide exposure to the investment returns of the commodities markets without investing directly in physical commodities. Some of these investment vehicles may invest in derivatives to achieve their investment objectives. We utilize these alternative investment vehicles to achieve a portfolio allocation that is expected to be more resilient to negative market action or when we feel the environment is unfavorable for traditional investment vehicles such as stocks and bonds or we believe the inclusion of the investment vehicle can improve returns. The values of many of these alternative investments are affected by events that generally have less impact on the values of stocks and bonds. For example, the prices of commodities and commodity-linked investments may fluctuate substantially over short periods of time, due to a variety of factors, including changes in supply and demand relationships, weather events, natural disasters, fiscal and exchange control programs, disease, pestilence and international economic, political, military and regulatory developments. Investments that are linked to the prices of commodities are considered speculative. These non-traditional investment vehicles are subject to a substantial risk of loss and may increase portfolio volatility. We used commodities as an example; however, each alternative investment has its own unique risks as well as potential return.

### *Exposure to Derivative Investments*

Our portfolios may include investment vehicles that utilize derivatives to seek enhanced returns and/or to try to manage portfolio risk. A derivative is an investment whose value depends on (or is derived from) the value of an underlying security, asset, interest rate, index or currency. We may use exchange-traded notes (ETNs) in a portfolio in an effort to provide exposure to one or more volatility indices, in an effort to seek enhanced returns or to try to manage portfolio risk. In addition, there are other ETNs investments which may be beneficial to add to a portfolio. The ETNs in which we may invest are senior, unsubordinated, unsecured debt securities that are designed to provide investors with exposure (or inverse exposure) to an index of market volatility. These securities are riskier than ordinary unsecured debt securities and have no principal protection. The risks associated with an investment in these ETNs are substantial and include, among others, trade price fluctuation, uncertainty of principal repayment and illiquidity. Derivatives may be volatile and involve significant risk of loss. The underlying security or instrument on which the derivative is based may not perform as expected. The successful use of derivative investments such as ETNs is dependent on the knowledge and skill of the portfolio manager.

### *Hedging Strategies*

We may utilize various investment products as an equity hedge. These investment vehicles, which typically move in the opposite direction of equity investments, are employed as a risk reduction or “hedging” strategy. For example, if the S&P 500 Index moves downward, these vehicles will typically move in the opposite direction. An example of a more traditional hedge is long term Treasuries as this investment tends to move up when equities are in a down trend. The purpose of these investments is to reduce the downside risk of a portfolio. The disadvantage of these investments is that in strong upward markets they will reduce the upside potential of the portfolio.

However, there are significant risks attendant to the use of investment vehicles employed for the purpose of hedging market risk. For example, we may utilize exchange-traded notes (ETNs), a relatively new, complex and innovative investment product that requires considerable skill on the part of the portfolio manager. The success of an investment strategy that incorporates such investments will be dependent upon the skill of the portfolio manager and there can be no assurance that the objectives for which these investments are used will be met.

As discussed above, the risks attendant to our hedging strategies that involve the inclusion in client portfolios of mutual funds that seek to provide leveraged investment results on a daily basis are considerable. Our ability to execute the strategy successfully requires careful monitoring of portfolios that include these funds on a daily basis. There can be no assurance that we will be able to execute these hedging strategies successfully.

### *Selection of Mutual Funds and ETFs*

Our process of selecting investments for client portfolios is guided by a rigorous due diligence process. This process varies depending on the investment opportunity. For the typical equity mutual fund or ETF we review the portfolio manager's track record in an effort to determine whether the portfolio manager has demonstrated an ability to achieve successful investment results over specified periods of time and under varying market conditions. Nevertheless, we recognize that we are, in essence, relying on third party investment expertise to achieve desired investment results for our clients. We recognize that past performance cannot guarantee future investment results and that there is a risk that a portfolio manager who has achieved superior investment results in the past may not be able to replicate that success in the future. We also recognize that a portfolio manager may deviate from stated investment objectives and policies (style drift) and that such deviation could result in a portfolio investment that is less suitable for our clients. While we attempt to monitor the mutual funds, ETNs and ETFs in which our clients have invested, we can provide no assurance that we will be successful in all aspects of the monitoring process.

### ITEM 9 - DISCIPLINARY INFORMATION

Socha Financial Group has no information to disclose in response to this Item.

### ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

As disclosed in Item 4, our Firm has arrangements with an insurance agency, KAFL, which is material to its financial planning and advisory business. As part of the financial planning process, the Firm may identify insurance needs for our clients and the client may request that the Firm help in the identification and procurement of insurance to meet this need. The Firm has chosen to use a general insurance broker, which can provide insurance products from many carriers, rather than be associated with a single insurance company. This gives the Firm's clients the most flexibility in choosing the type of coverage they wish to carry as well as have the ability to see the differences in premiums and commissions.

We recognize that our recommendation of a single insurance agency for this purpose poses a conflict of interest. We have a financial incentive to recommend the purchase of insurance products through KAFL because our Firm may receive commissions on the sale of these products. We address this conflict of interest by disclosing this potential conflict of interest to our clients, by explaining to our clients that they are under no obligation to accept our recommendations for insurance coverage and by informing our clients that they are free to purchase insurance products from other vendors.



## ITEM 11 – CODE OF ETHICS

### PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

The Firm has adopted a Code of Ethics which applies to all supervised persons of the Firm. The Code of Ethics acknowledges the Firm's fiduciary duty to its clients and imposes a standard of business conduct. The Code of Ethics is based upon the fundamental precept that the interests of the Firm's clients must, at all times, be placed before those of the Firm or any of its supervised persons.

The Code of Ethics includes, among other things, provisions relating to the confidentiality of client data, provisions governing the conduct of the Firm's supervised persons and provisions governing personal securities transactions by the Firm's supervised persons. All supervised persons of the Firm must acknowledge the terms of the Code of Ethics annually, or as amended. A copy of the Code of Ethics is available to clients of the Firm, without charge, upon request.

Any violation of the Code of Ethics is investigated, documented and handled by the Chief Compliance Officer or Assistant Compliance Officer of the Firm. Any action that is taken as a result of the violation is also documented and maintained in the compliance files.

The Firm utilizes batch trading on client accounts as well as for the accounts of all supervised and management staff. These accounts are traded at the same time as client accounts. Individual staff may also do their own trading but these investments are not the same choices as used for clients. Personal trading of all staff is reviewed routinely.

Nancy and Louis Socha participate as members of the Board of Directors for the United Way of the Southern Tier and members of the Resource Development Council subcommittee. Nancy is a member of the Finance Committee and Investment Strategy subcommittee. The Firm, if requested to manage funds for the United Way of the Southern Tier, would manage these funds without a fee to avoid any potential conflict of interest.

## ITEM 12 - BROKERAGE PRACTICES

We manage investment portfolios for clients on both a discretionary and a non-discretionary basis. In either case, there are no limitations on our authority to select brokers or dealers or commission rates to be paid. We do not permit clients to direct

brokerage transactions to a specific broker-dealer. As discussed below, we require that our clients appoint a single “qualified custodian” to maintain custody of their assets. All transactions for client accounts are placed with that custodian for execution purposes.

### *How We Select Brokers and Custodians*

We do not maintain custody of client assets. However, under applicable regulations we may be deemed to have custody of a client’s assets if that client gives us authority to withdraw assets from his or her account to pay our fee. See Item 15 – Custody. Client assets must be maintained in an account with a “qualified custodian,” generally a broker dealer or bank. We require that our clients appoint Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, as the qualified custodian for their accounts. Socha Financial Group is independently owned and operated and, as such, is not affiliated with Schwab.

If you enter into an advisory relationship with this Firm, you will appoint Schwab as the “qualified custodian” for your account. Schwab will hold your assets in a brokerage account and buy and sell securities for your account when we instruct them to do so. While it would be theoretically possible to use other brokers to execute trades for your account, we believe that it is more cost-effective to utilize the execution services provided by Schwab under most circumstances. By requiring that you appoint Schwab as the “qualified custodian” for your account, you are authorizing us to direct trades for your account to Schwab for execution. Not all advisers impose such requirements. See “Your Brokerage and Custody Costs.”

We have selected Schwab for execution of trades, based on Schwab’s ability to execute transactions on terms that, in our opinion, are overall most advantageous in comparison to the terms offered by other service providers. In connection with the development of our policy concerning the utilization of Schwab’s custody and execution services, we have taken a number of factors into account including those set forth below.

- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange- traded funds (ETFs), etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.)
- Reputation, financial strength, and stability
- Prior service to us and our other clients

We have also considered the fact that Schwab generally provides a combination of custody and execution services without imposing a separate fee for custody of assets, and the availability of other products and services that benefit the Firm and our clients. As discussed in more detail below, some of these additional products and services benefit us while others benefit our clients. See *Products and Services Available to Us from Schwab*. At this time, we have concluded that Schwab meets the criteria that we have established. We re-evaluate Schwab's execution capabilities on a periodic basis in an effort to determine that we are achieving the most favorable execution of client transactions.

### *Brokerage and Custody Costs*

Schwab generally does not charge its clients separately for custody services. Schwab is compensated by charging the client commissions or other fees on trades that it executes or that settle into your Schwab account. We believe that this arrangement benefits our clients because the overall costs for these services (Custody and execution) are lower than they would be otherwise. We are not under a contractual obligation to maintain any set amount of client assets with Schwab.

In addition to commissions, Schwab charges its custody clients a flat dollar amount as a "prime broker" or "trade away" fee for each trade that is executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into their Schwab accounts. If transactions for your account are executed by a broker-dealer other than Schwab, your account will incur these "trade away" fees in addition to the commissions or other compensation paid to the executing broker-dealer. Transaction costs affect account performance and lower investment returns; however, when executing a trade all aspects are considered to determine the best execution. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above. See *How We Select Brokers and Custodians*.

### *Products and Services Available to Us from Schwab Advisor Services™*

Schwab Advisor Services™ (formerly called Schwab Institutional®) is the Schwab business unit that serves independent investment advisory Firms like Socha Financial Group. This business unit provides us and our clients with access to its institutional brokerage services—trading, custody, reporting, and related services—many of which are not typically available to Schwab retail customers. Schwab Advisor Services™ also makes available to us and our clients various support services. Some of those services help us manage or administer our client accounts; while others help us manage and grow our business. These support services generally are available to us on an unsolicited basis (we don't have to request them) and at no charge to us. A more detailed description of Schwab's support services is set forth below:

#### ► *Services Provided to Us That Benefit You*

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access. These services generally benefit you and your account.

► *Services Provided to Us That May Not Directly Benefit You*

Schwab also makes other products and services available to us. These products and services, which benefit us but may not directly benefit you or your account, assist us in managing and administering our clients' accounts. They include proprietary and third-party investment research. We may or may not use this research. Under circumstances where we do use this research, we may use it to service all or a substantial number of our clients' accounts. In addition to investment research, Schwab also makes available software and other technology that provide access to client account data (such as duplicate trade confirmations and account statements); facilitate trade execution and allocate aggregated trade orders for multiple client accounts; provide pricing and other market data; facilitate payment of our fees from our clients' accounts; and generally assist with back-office functions, recordkeeping, and client reporting.

► *Services Provided to Us That Generally Benefit Only Us*

Schwab also offers other services that are intended to help us manage and further develop our business enterprise. These services include: educational conferences and events; consulting on technology, compliance, legal, and business needs; and publications and conferences on practice management and business succession.

*Our Interest in Requiring That Clients Use Schwab's Custody and Brokerage Services*

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. Our continued receipt of these services is not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. Nevertheless, our receipt of these services from Schwab may provide us with an incentive to require that our clients maintain their accounts with Schwab. This incentive, which is based on our interest in receiving Schwab's services rather than your interest in receiving the best value for custody and execution services, presents a potential conflict of interest. We acknowledge this potential conflict of interest. However, based upon our evaluation of custody and execution services generally available from other service providers, we believe that it is in the best interests of our clients to appoint Schwab as custodian and broker for their accounts. We do not believe that our receipt of services from Schwab presents a material conflict of interest because the Firm's policy is motivated primarily by the scope, quality, and price of Schwab's services rather than by our receipt of services that benefit only the Firm. We acknowledge that it is theoretically possible that in placing all client transactions with Schwab for execution, we may not achieve the most favorable execution of each client transaction.

However, we believe that, on balance, our clients benefit from our use of a single trading platform, especially because most client portfolios are structured to consist of mutual funds and ETFs. We acknowledge our duty to seek best execution of transactions for client accounts. We believe that we satisfy that obligation by our continuous monitoring of client accounts and our periodic review of these arrangements with Schwab.

### *Large Trader Status and Reporting*

Our portfolios are model based; thus, there is consistency between portfolios with the same model and it allows us to trade multiple portfolios simultaneously when there is a reallocation of assets. Implementation of this strategy causes the Firm to be classified as a “large trader” under the Securities Exchange Act of 1934 (Exchange Act). As a result of the Firm’s status as a “large trader,” the Firm is required to make, and does make, various filings with the SEC under the Exchange Act.

## ITEM 13 - REVIEW OF ACCOUNTS

We review client portfolios at least once each quarter to verify that portfolio investments are consistent with the investment policy statement for each account. We also conduct ongoing research in an effort to assure that the individual positions are performing as expected and that the overall asset allocation is appropriate in view of the current economic environment.

Each quarter, the Firm provides quarterly performance reports for each managed account. With the report a commentary is included which discusses our macro-economic view and how that may impact the investment outlook.

We encourage our clients to be proactive in contacting us if there are changes in their personal circumstances that might require reconsideration of the manner in which our services are delivered or if they have with any questions they may have regarding their finances. We have both financial planning and investment management clients who require varying levels of service and expertise. The Firm’s goal is to provide exceptional service and expertise to all clients.

An additional requirement for ERISA and certain IRA plans will be implemented as of April 10, 2017. The DOL Fiduciary Rule increases scrutiny and disclosure for the Firm regarding any client considering a rollover from a 401(k) plan or IRA to a managed IRA account through Schwab and this Firm. There are strict disclosure and documentation required for the Firm to conduct this type of business. The Firm has processes and documents in place to meet these requirements.

## ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisors whose clients maintain custody of their accounts at Schwab. These products and services and the related conflicts of interest are described above See Item 12 – Brokerage Practices. The availability to us of Schwab's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

Socha Financial Group does not compensate any individual or party for client referrals.

## ITEM 15 - CUSTODY

We do not maintain custody of any client assets. However, under applicable regulations, we are deemed to have custody of your assets if, for example, you authorize us to instruct the custodian to deduct our advisory fees directly from your account.

We require our clients to appoint Schwab Advisor Services™ (formerly called Schwab Institutional®) to maintain actual custody of their assets. Clients will receive account statements directly from the custodian at least quarterly. They will be sent to the email or postal mailing address that the client has provided to the custodian. We encourage our clients to carefully review those statements promptly when they receive them. We also urge our clients to compare the custodian's account statements to the periodic account statements and/or portfolio reports that they may receive from us. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

In 2016, the SEC stepped up the challenge on the definition of custody to include the assumption that the Firm has custody of a client's assets if a Standing Letter of Authorization/Moneylink (SLOA) is maintained on the account. Our Firm's position is that we do not have custody of a client's assets strictly relative to SLOAs since this form provides for a very limited scope of authorization wherein the adviser may transfer client funds. These limitations include: the custodian creates the form to be used and the client provides the information on the form and authorizes the form by their signature; the transfer is limited to the same client at the same address but at a different financial institution; the funds cannot be sent out to a third party; the Firm has no authority to change the instructions. Based on this fact pattern, the Firm believes that it does not have custody of client assets due to the SLOA authorization form. The SEC recently issued a No Action letter which confirms this arrangement for SLOAs. Schwab has also implemented procedures to further confirm that the accuracy and establishment of the SLOA was as intended.

## ITEM 16 - INVESTMENT DISCRETION

Socha Financial Group manages client portfolios on both a discretionary and non-discretionary basis. In those instances where a client chooses to have his or her account managed on a discretionary basis, the client will enter into an investment advisory agreement with the Firm that defines the scope of the Firm's discretionary authority. In these situations, the client will execute a limited power of attorney, pursuant to which the Firm is authorized to purchase and sell portfolio securities for the account. In all cases, however, discretionary trading authority may be exercised in a manner consistent with the stated investment objectives for the particular client account. Any restrictions or limitations on the Firm's discretionary authority must be made in writing and contained in the investment management agreement between Socha Financial Group and the client.

## ITEM 17 - VOTING CLIENT SECURITIES

This Firm will vote proxies for our clients. Our policy and procedure for this is to vote with the Board of Directors. The reason for this is that the mutual funds we use have been chosen because we believe in the philosophy of the managers and the company. We are not in a position, as a small advisory Firm, to have sufficient knowledge to vote differently from the Board in proposals involving the election of directors, mergers, acquisitions or other matters that come before shareholders for consideration. Should the Firm choose to vote differently from the Board for any reason, this will be documented in the proxy file as to how we voted and why it is different from the action recommended by the Board of the mutual fund or equity position.

Clients do not have the ability to direct how we vote proxies, but clients can obtain information on how their proxies were voted by contacting us. Our proxy voting policies and procedures are available to any client, prospective client, and investor upon request.

Each client may choose, at the time of the initial application, or any time thereafter, to vote the proxies themselves. This is noted in the application. The client would then vote any future proxies.

## ITEM 18 - FINANCIAL INFORMATION

Socha Financial Group has no financial condition that would impair its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.