

# **Novak Financial Planning, LLC**

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## **Firm Brochure Part 2A of Form ADV Updated March 22, 2017**

**This brochure provides information about the qualifications and business practices of Novak Financial Planning, LLC. If you have any questions about the contents of this brochure, please contact us by telephone at (410) 515-6310, by facsimile at (410) 515-6684 or email us at [novak@novakfinancialplanning.com](mailto:novak@novakfinancialplanning.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.**

**Where ever Novak Financial Planning, LLC is referred to as a “registered investment adviser” throughout this document, the term “registered” does not imply a certain level of skill or training. “Registered” means Novak Financial Planning has filed the necessary documentation to maintain registration as an investment advisor with the Securities and Exchange Commission.**

**Novak Financial Planning, LLC is a registered investment advisor. Registration is mandatory for all persons meeting the definition of investment advisor and does not imply a certain level of skill or training. Additional information about Novak Financial Planning, LLC is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## Summary of Material Changes

This summarizes changes to Novak Financial Planning, LLC's firm brochure dated 3/21/2016. The revised brochure is dated 3/22/17 and incorporates the following changes:

**Page 3 – How Risks for Conflict of Interest are Mitigated** – The previous version of the brochure included the statement “Finally, NFP does not accept any form of referral fee from the professionals that may provide additional services to clients based on recommendations made by NFP or for any other reason.” This version further clarifies that in addition to NFP not receiving referral fees, NFP does not pay a referral fee to other professionals in exchange for client referrals.

**Page 4 – Type of Relationship** - As of NFP's fiscal year end (December 31, 2016), NFP's Advisors managed \$194,947,035 for advisory clients. **Discretionary** assets totaled \$163,958,601. **Nondiscretionary** assets totaled \$30,988,434.

**Page 4 – Discretionary** – Further clarification to the meaning of “discretionary” has been added to Page 4 as follows: “Advisors do not have custody of client assets. Except for determining which securities to buy, sell or trade and implementing trades within the client's account, all other actions within the client's account require advance approval of the client.”

**Page 4 – Non-Discretionary** – The previous version of the ADV included a further break-down of all non-discretionary assets including the amount of non-discretionary assets for clients that are **not** advisory clients. Non-Advisory clients do not enter into an Investment Advisory Agreement for regular and continuous investment management. Whereas, the ADV is a disclosure document for Advisory clients; inclusion of assets invested through NFP for non-advisory clients is not relevant for this document and has been removed in this version.

**Page 5,6,8,9 & 10 – Investment Programs (5&6) & Fees & Compensation (8-10)** - There were no material changes made to the investment programs or fees & compensation; however, the layout of the pages was re-formatted to provide a better explanation of the differences between the two investment programs.

**Page 5 – Commission Only** – Reference to the Commission Only Investment Program has been removed from this version of the brochure as this is not an advisory program.

**Summary:** Changes to the language of various sub-headings are shown above. Assets under management were updated to include the fiscal year end as of December 31, 2016.

All other information in the March 21, 2016 version of Novak Financial Planning's firm brochure remains the same. Clients may request a copy of the complete March 22, 2017 version of the firm brochure by calling Novak Financial Planning at 410-515-6310.

**Novak Financial Planning, LLC**  
**Firm Brochure**  
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## **ADVISORY BUSINESS**

### **The Firm – *Novak Financial Planning, LLC (also referred to as NFP or the firm)***

NFP is co-owned by Daniel J. Novak, Jr., CFP® and Carol A. Novak, CFP®. The firm was founded in 1987 by Daniel Novak who operated as a sole proprietor doing business as Novak Financial Planning. In 1988 his wife, Carol A. Novak became a licensed security representative of the broker-dealer Cadaret, Grant & Co., Inc. to assist Dan in the business while pursuing her own career in corporate finance. As NFP continued to expand, Carol joined the firm in 1996 as a full-time Financial Advisor. In March of 2000 the entity was changed from a sole proprietorship to an LLC and registered in the State of Maryland as Novak Financial Planning, LLC. More information about the backgrounds, education and other qualifications of Daniel and Carol Novak may be found in the Supplemental Brochures attached to this document.

### **Types of Services Provided**

NFP provides financial planning and consulting services as well as discretionary and non-discretionary investment advisory services.

### ***Financial Planning and Consulting***

Both Daniel and Carol Novak are Certified Financial Planner licensees with the Certified Financial Planner Board. As such, the Advisors offer financial planning and consulting services related to, but not limited to the following:

- Education Planning
- Estate Planning
- Tax Planning
- Charitable Gift Planning
- Investment Planning
- Risk Management (insurance)
- Retirement Planning
- Or other financial matters

### **The Relationship**

Clients enter into a Financial Planning Engagement Letter detailing the terms and conditions under which NFP will provide financial planning and consulting services. Specifically, the letter will outline the scope of services to be provided as well as an estimate of the total fees the client will incur for the analysis.

Clients may choose from a comprehensive financial plan that incorporates all or as many of the topics referenced above that apply to the client. Or, clients may choose a limited scope engagement that addresses specific topic areas such as education planning.

Clients may terminate NFP's Financial Planning Engagement at any time. However, if the client terminates after the Advisor has commenced work on the financial plan, the client will be responsible for the fees for services already rendered.

## **Collection of Data**

The Advisor collects the client's non-public personal and financial information, including but not limited to:

- Financial goals and objectives
- Sources and Uses of income
- Assets and Liabilities
- Legal Documents such as Last Will and Testament and Powers of Attorney
- Tax Returns
- Risk Tolerance Questionnaire

## **The Analysis**

The Advisor will use the collected data to prepare a client specific analysis along with recommendations that will be presented to the client. NFP's Advisors are limited to making specific recommendations that are within their area of expertise and for which they are licensed. Both Carol Novak and Daniel Novak are Certified Financial Planners and as such will discuss multiple topics regarding retirement planning, education planning, tax planning, estate planning and risk management. As part of those discussions, Advisors may recommend that a client pursue certain actions or investigate various products. This is meant to be general advice pursuant to overall financial planning. In some cases, Advisors may not be licensed to implement these recommendations or to provide specific product recommendations. Therefore, additional professionals may be required to provide further review, recommendations, and implementation for certain areas of the client's plan where the Advisors may have recommended further action be considered.

**Example:** If the Advisor recommends that the client obtain a Last Will and Testament, they will recommend that the client speak with an Attorney for further evaluation. If the Advisor recommends that the client investigate various types of annuities the client must work directly with a licensed insurance agent.

## **The Implementation of Recommendations**

### ***Through NFP***

NFP may make recommendations to the client for which NFP could provide additional services such as investment implementation and/or management or insurance product sales. Should the client pursue additional services through NFP, this will result in additional compensation to NFP that is separate from the financial planning fee.

### ***Through other professionals***

Clients may need to seek further advice for review or implementation of recommendations made by the Advisor. The fees charged by NFP for the preparation and presentation of a financial plan are separate and distinct from additional fees that the client may incur when engaging other

professionals to assist in the implementation of recommendations made by the Advisor, such as the preparation and execution of a Last Will and Testament.

### **Potential Conflicts of Interest**

A potential conflict of interest arises when NFP's Advisors make recommendations for additional services that they can provide and for which they will earn additional compensation in the form of commissions or fees that are separate from the fee charged for financial planning. See how these risks are mitigated below.

All Advisors of NFP are FINRA licensed Registered Representatives of the Broker/Dealer Cadaret & Co., Inc. As such, they may recommend products for which they would be compensated by commission.

Daniel Novak is a licensed Life and Health agent. If the financial plan results in a recommendation for some type of insurance and the client purchases the insurance through Daniel Novak, he will be compensated by commission.

### **How is the potential risk of conflict of interest mitigated?**

NFP separates the financial planning relationship from the implementation of services. Clients compensate NFP on a fee basis for the provision of advice and recommendations. NFP Advisors make recommendations fully aware that clients are in no way obligated to further engage the services of NFP for the implementation of recommendations made as part of the financial planning services provided.

Clients retain absolute control over all implementation decisions and are free to accept or reject any recommendation made by NFP. Clients may select any broker, brokerage firm, insurance, or other product sales company, or any other professional he or she desires for the implementation of any recommendations made by NFP during the financial planning process.

NFP offers clients multiple investment programs that differ on how the Advisor is compensated. Therefore, the client reserves the right to choose the program that compensates the Advisor in the manner in which the client feels most comfortable.

Finally, NFP does not accept any form of referral fee from the professionals that may provide additional services to clients based on recommendations made by NFP or for any other reason. Nor, does NFP pay a referral fee to other professionals in exchange for client referrals.

## ***Investment Advisory Services***

### **The Relationship**

Prior to engaging NFP to provide investment advisory services, clients enter into a formal Investment Advisory Agreement with NFP setting forth the terms and conditions under which the Advisor will manage the client's investments, and the fees or other charges the client will pay.

A client may terminate NFP's Investment Advisory Agreement at any time, subject to the conditions detailed in the Investment Advisory Agreement, by giving written notice to NFP or its Advisors at least (7) days prior to the date of termination.

NFP may terminate the Agreement without cause with 30 calendar day's written notice to the client, subject to the conditions detailed in the Investment Advisory Agreement.

### **Type of Relationship**

NFP's Advisors managed assets totaling \$194,947,035 as of 12/31/2016.

### ***Discretionary***

Clients may grant NFP's Advisors **limited** discretionary authority to buy, sell, invest, reinvest, exchange and trade, in its sole discretion and without consulting with the client in advance, the assets held in the client's account. As of NFP's fiscal year end (December 31, 2016), NFP's Advisors managed discretionary assets totaling \$163,958,601. Discretionary authority is limited to the selection of securities to be held in the account and the purchase or sale of said securities.

Advisors may purchase no-load mutual funds, mutual funds that charge an on-going 12b-1 fee, exchange traded funds and individual securities or bonds. Regardless of the discretionary authority, Advisors **may not** purchase assets that will result in the receipt of a third-party commission to NFP without the client's consent.

### ***Non-Discretionary***

For non-discretionary accounts, clients require that NFP's Advisors gain their consent before taking any action within their accounts. Such consent may be verbal; however, the consent or other instructions must come from the account owner unless the Advisor has a valid, current Power of Attorney or Trading Authorization Form, either full or limited, granted by the client to another individual and specifically granting the individual the power to act on the client's behalf. As of NFP's fiscal year end (December 31, 2016), NFP's Advisors managed non-discretionary assets totaling \$30,988,434 for Advisory clients.



## **Investment Programs**

NFP offers clients two types of investment advisory programs. In addition, NFP offers a commission only investment program that is outside the scope of this document as it is not an advisory program.

### **1. Fee based – May be Either Discretionary or Non-Discretionary**

- **Broker / Custodian**
  - NFP's Advisors provide fee based investment advisory services through Novak Financial Planning, LLC (a Registered Investment Advisory Firm) to clients where custody of the account is maintained by TD Ameritrade Institutional, Division of TD Ameritrade, Inc., and Member FINRA/SIPC.
  - TD Ameritrade provides clients confirmations of all trades and monthly statements of all holdings and account activity.
- **Method of Compensation**
  - The Advisor is compensated by on-going management fees for the management of assets held by a third-party custodian.
  - The assets are bought and sold without a commission to NFP.
  - The Advisor is compensated for their advice and on-going management of the advisory account.
  - In addition, Advisors may recommend assets that cannot be purchased or held by the custodian on the advisory platform. The purchase of these assets may result in a commission to the Advisor. Such assets would be held outside of the advisory platform and require advance approval of the client.
  - Clients may instruct Advisors to limit security selections and/or recommendations to only those that do not pay a commission and can be held on the Advisory platform.
- **Other Potential Fees or Charges**
  - Clients may incur custodial charges and trading costs such as ticket charges (sometimes referred to as commission by the Custodian but are not payable to NFP) that are separate from the fees charged by NFP.
  - A description of the fees and other charges related to the fee based program are detailed in the section titled "Fees and Compensation".
  - Occasionally, mutual funds purchased on the advisory platform charge an on-going 12b-1 fee and as such this program does not meet the criteria of **fee only**. NFP attempts to minimize the use of mutual funds that charge a 12b-1 fee on the fee based platform. 12b-1, if applicable, are retained by the Custodian, and not paid to the Advisor.
- **Payment of Management Fees**
  - Clients may grant NFP the authority to instruct the Custodian to deduct management fees directly from managed accounts. These fees will only apply to the assets held in those accounts regardless of other assets that the client may hold outside of the advisory platform.
  - The process whereby fees are deducted is further described in the section titled "Fees and Compensation."

## **2. Commission & Fee Based Advisory Program – Non-Discretionary Only**

- **Broker/Custodian**
  - NFP's Advisors place all securities trades through the Broker/Dealer Cadaret, Grant & Co., Inc., Member FINRA/SIPC.
  - Custody of client's assets is either maintained directly at the mutual fund company or with Pershing, LLC, an affiliate of the Bank of New York Mellon.
  - Variable Annuities are held by the individual insurance companies.
- **Method of Compensation**
  - NFP charges an on-going management fee for regular and frequent supervision of client accounts.
  - NFP purchases assets that compensate NFP by commission.
  - Therefore, NFP charges the client a lower management fee than that charged in the fee based program.
  - Where possible, NFP takes advantage of discounted sales charges, known as breakpoints offered through the mutual fund companies at various investment levels.
  - NFP discounts commissions for trades made in client's Pershing brokerage accounts at 20% or more depending on the situation.
  - Management fees begin in year 2.
- **Other Potential Fees and Charges**
  - Clients may incur additional fees such as Custodial charges for IRA accounts.
  - Client may incur on-going 12b-1 fees.
  - Additional information regarding other charges a client could incur is included in the section titled "Fees and Compensation".
- **Payment of Management Fees**
  - NFP does not deduct management fees from client accounts.
  - Certain assets are excluded for fee calculation purposes.
  - Clients pay fees directly to NFP annually.
  - Additional information regarding the calculation of management fees is included in the section titled "Fees and Compensation".
- **Limitations**
  - Participation in the fee and commission program may limit the Advisor's ability to adequately diversify a client's portfolio.
  - Sales charge discounts are only available when funds are invested within the same fund family.
  - Although the client may exchange between funds within a fund family without incurring a sales charge, the Advisor loses the flexibility to shift client assets out of a fund family without the client incurring another sales charge.
  - For this reason, clients investing in this type of program should have a long time horizon.

## **Multiple Program Participation**

- Clients are **not** limited to one type of program only.
- For a number of reasons, clients may choose to participate in more than one investment program simultaneously.

## **Client Pension and Profit Sharing Plans (outside of NFP's management)**

- NFP Advisors recognize the importance of employer retirement plans held by clients.
- Although Advisors do not have access to or provide on-going investment management for these accounts, they will provide assistance to clients as follows:
  1. At the client's request, NFP Advisors will review client provided employer retirement plan statements, investment options and documents.
  2. Recommendations will be made based on the client's profile specifically related to retirement goals, tax planning, risk tolerance, investment objective and time horizon.
  3. Clients will be responsible for implementing recommendations made by the Advisors which may include changes to allocation of the existing balance as well as changes to the allocation of future contributions and/or the percentage contributed.
  4. Advisors may not access client accounts to make changes to current investment allocations, future contributions or to monitor the performance of the holdings.
  5. Advisors do not have on-going visibility to these holdings or to the client's account; therefore, Advisors will only be aware of account activity or performance if the client provides the Advisor with a statement.
  6. NFP does not include client employer retirement plans as assets under management for the purpose of calculating management fees.
  7. For Advisory (fee based and commission + fee) clients, NFP Advisors will provide this service to clients at no charge if NFP manages fee based assets of at least \$250K for the client's household (a household consists of spouses and children under age 21 living in the same household).
  8. For commission based clients and advisory clients with less than \$250K of assets under NFP's management, Advisors will provide this service on an hourly basis subject to hourly charges outlined in the section titled Fees and Compensation for limited scope financial planning and consulting. The Advisor will cap the fee charged per review and per account to the equivalent of 1 hour. Should the Advisor exceed 1 hour in the review process, the client's fee shall not exceed the equivalent of one hour of financial planning.

## **FEES AND COMPENSATION**

**NFP may be compensated by fees and/or commissions in the following ways:**

### **1. Financial Planning and Consulting Service Fees**

- NFP's Advisors estimate the fees in writing as part of the Financial Planning Engagement Letter.
- Fees will not exceed the estimates unless the analysis is particularly complex or the client makes numerous revisions to assumptions or requests multiple revisions to the plan.
- A change to estimated fees requires authorization from the client in writing.
- Fees are paid upon completion and presentation of the plan to the client.

#### **▪ Comprehensive Financial Planning**

- Flat fee depending on the degree of complexity
  - Low rate of complexity - \$1000
  - Moderate rate of complexity - \$1500
  - High rate of complexity - \$2000
- Rate of complexity based on:
  - The number or types of accounts held
  - The marital status of the client
  - Whether the client is a small business owner
  - Ownership of investment real estate
  - Ownership of company stock options or restricted stock programs
  - Deferred compensation plans
  - The need for college planning

#### **▪ Updates to Comprehensive Financial Plans**

- Hourly @ \$125 per hour

#### **▪ Limited Scope financial planning or consulting**

- Hourly @ \$125 per hour

### **2. Investment Management Fees (Applies to Both Advisory Programs)**

- Management fees are not collected in advance of services.
- Fee structure is outlined in the Investment Advisory Agreement.
- Fees are generally not negotiable; however, in the Advisor's sole discretion, the Advisor may modify the fee arrangement with clients on a case by case basis.
- NFP aggregates client accounts by household for the purpose of calculating fees for breakpoints offered by NFP at various account balance levels. A household is considered spouses and children under the age of 21 residing in the same household.
- Management fees paid to NFP are separate and distinct from other fees the client **may** incur. The charges a client may incur under each program type are shown on the next page.

## Fee Based Advisory Platform –

- **Management Fees Charged by NFP**
  - The standard management fee structure is
    - 1% of the first \$500K under management
    - .5% of the excess of \$500K under management
  - Fees are calculated based on the value as of the last business day of the quarter.
  - Fees are applied to the accounts on a weighted average basis.
  - Fees are deducted automatically from accounts quarterly in arrears unless the client specifically requests that they pay the fees out of pocket.
  - NFP will attempt to deduct management fees without the liquidation of securities, if possible.
  - To accomplish this, NFP may deduct fees from a non-qualified account that has adequate cash on hand to cover the fees in an IRA that does not have adequate cash. However, NFP will not deduct fees for a non-qualified account from a client's IRA.
- **Special Instructions** (requests must be made in writing by the client)
  - Clients may dictate the accounts that they prefer fees to be deducted from.
  - Clients should seek the advice of their CPA regarding the way they want their fees deducted from their accounts for tax purposes.
  - Clients may request that they pay the fee directly.
- **Other potential fees or charges the client may incur include**
  - Transaction fee charged by the Custodian on some securities transactions
  - Potential short term trading fees charged by some investment companies if shares are purchased and sold within a short period
  - Annual expense charges of mutual funds and exchange traded funds as outlined in the fund's prospectus.
  - Custodial Fees charged for Individual Retirement Accounts (currently TD Ameritrade does not charge a custodial fee for IRA's).
  - Potential fees charged for returned checks, overnight mail, wire order's or other special circumstances. (A complete list of possible fees is available at the client's request).
  - If applicable, the Advisor may be compensated by commission on the purchase of securities **not offered on the Advisory platform** such as insurance products or non-traded securities.
    - For annuities, annual expenses may include:
      - Annual expense charges of mutual fund or exchange traded fund sub-accounts as outlined in the fund's prospectus.
      - Surrender charges for annuities that are surrendered prematurely.
      - Rider charges within annuity contracts for certain features if part of the annuity contract, for example guaranteed income or mortality charges.

## **Commission & Fee Program**

- **Specifics**
  - Advisor is compensated initially by upfront commission and on-going 12b-1 fee, if applicable.
  - No management fee in the first year of management.
  - NFP does not have authority to deduct fees from client accounts.
  - Fees are paid directly by clients.
- **Commissions**
  - Trades will be effected through Cadaret, Grant and commissions will be charged by Cadaret Grant in accordance with their normal commission schedule.
  - The commissions charged by Cadaret, Grant may be higher or lower than those charged by other broker-dealers.
  - A portion of the commissions charged by Cadaret, Grant will be paid to NFP's Advisors.
  - Client's purchasing mutual funds will pay sales charges determined by the share class as shown below:
    - A shares – paid upfront
    - B & C shares – no upfront sales charge but have a contingent deferred sales charge on the back end if shares are liquidated within a specified number of years as shown in the fund's prospectus. Class B and C shares also carry higher annual fund expenses than class A shares.
    - A prospectus is provided to clients at the time of purchase.
- **Investment Management Fee Calculation Method**
  - .5% of the first \$250K under management.
  - .25% of the excess over \$250K under management.
  - Assets are valued annually on the client's anniversary.
  - Assets excluded from the fee calculation
    - Public non-traded REITS
    - Limited Partnerships
    - Fixed annuities
    - Class C share mutual funds
    - New assets added during the year that resulted in a commission paid to NFP.
- **Other potential fees or charges the client may incur include**
  - Potential short term trading fees, if applicable.
  - Annual expense charges of mutual funds, exchange traded funds and variable annuities as outlined in the fund's prospectus.
  - Surrender charges for annuities surrendered pre-maturely.
  - Rider charges within annuity contracts for certain features if part of the annuity contract, for example guaranteed income or mortality charges.

### **Investment Management Fees when a client participates in more than one advisory program**

- Commission based assets will be charged fees based on the commission/fee based schedule.
- Fee based assets will be assessed a fee in accordance with the fee based fee schedule.

### **Investment Management Fees when a client holds both non-advisory and advisory accounts**

- Assets held in a commission only capacity and not as part of an Investment Advisory program are not charged management fees.
- For these same clients who also have a separate Advisory account, those assets will be charged fees based on those account balances only and are not aggregated with the commission only accounts for breakpoint purposes.

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Neither NFP nor its advisors charge clients fees based upon a share of capital gains or capital appreciation of the assets in the client's account.

## **TYPES OF CLIENTS**

NFP's clients are generally comprised of individuals, trusts, estates, and profit sharing plans. Currently, NFP has a client minimum of \$250K of assets under management for new clients.

Clients are typically investors with longer term time horizons rather than day traders with a much shorter time horizon and higher risk tolerance level.

With the implementation of a \$250K threshold for assets under management, NFP has been gradually phasing out the use of its Commission & Fee Based investment program as well as its commission only program for assets other than those that cannot be held on an advisory platform. However, new clients may request participation in these programs if they feel they will better meet their needs. In addition, Advisors may continue to recommend a non-advisory relationship if it is in the best interest of a client that does not require or desire regular, on-going investment management.

Existing clients under both the Commission & Fee and the Commission Only programs will remain in those programs unless they choose to move to the fee based Advisory program. Their accounts will continue to be serviced in the same manner they have always been.

Currently, 85% of the advisory assets under management are held on the discretionary fee based advisory platform.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES and RISK OF LOSS**

### **Methods of Analysis**

NFP's Advisors employ the following methods of analysis:

- Fundamental Analysis – the Advisor considers factors that can affect a securities value such as overall economic and industry conditions as well as company specific factors such as growth trends, financial condition, and management.
- Technical Analysis – the Advisor considers statistics generated by market activity, such as past prices and trading volume. When analyzing securities using technical analysis the Advisor does not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity.
- Cyclical Analysis – is a method of analyzing a security's behavior when economic growth is strong vs. when economic growth is slowing to determine if cyclical trends are likely to affect the price of the security.
- Due Diligence Meetings – the Advisors participate in conference calls with analysts, portfolio managers and strategists with a variety of Investment Companies. The Advisors also rely upon the due diligence efforts of their Broker/Dealer.
- The Advisors attend various seminars and educational programs to remain abreast of various approaches to investment analysis.
- Research programs and reports – the Advisors utilize several tools to analyze a particular security. See the section titled "Research Tools" below.

### **Investment Strategies**

NFP's Advisors use the information provided by clients to design an asset allocation strategy suitable for the client. Although NFP's Advisors develop and utilize certain model allocations for various investment objectives, these are just guidelines. All asset allocations are developed specifically based on individual client needs. NFP's Advisors take into consideration other assets that clients hold outside of NFP when designing the allocation, such as assets held in employer sponsored retirement plans if the client provides current information. The Advisor will gather the following information to make a suitable recommendation:

- Short and long term goals
- Investment objectives
- Time horizon
- Risk Tolerance
- Sources and Uses of Income
- Income needs
- Net Worth
- Assets and Liabilities



Clients can impose restrictions on the types of asset classes or securities that are purchased for their accounts. These restrictions, if any, will be documented in the client file for future reference when reallocating.

NFP's overall investment strategy, based on the demographics of its client base, is to manage accounts in a manner that is suitable to the client profile in an effort to meet goals and objectives of the client. To accomplish this, NFP and its Advisors employ a combination of strategic and tactical asset allocation strategies to manage the client's portfolios according to the individual client's investment objective and risk tolerance.

### **Strategic Asset Allocation**

The Advisors create a portfolio with a base strategic asset mix based on the Client's Profile. Because the value of assets can change given market conditions, the Advisors may need to re-balance the portfolio to maintain the base strategic asset mix.

### **Tactical Asset Allocation**

Although the demographic of NFP's clients lends itself to a more strategic method of asset allocation, NFP and its Advisors may utilize tactical asset allocation strategies from time to time to capitalize on market opportunities or in an effort to protect client portfolios.

Tactical asset allocation is a method whereby Advisors look at ongoing market, economic and individual security conditions, and attempt to determine which asset classes or securities would be more beneficial for client accounts given the client's profile. For example, given market and economic conditions as well as the client's profile, Advisors may choose to overweight domestic equities and commodities and underweight long term bonds.

### **Risk Associated with Tactical Asset Allocation**

There is risk associated with any investment strategy; however, tactical asset allocation allows the advisor to engage in short-term trading in order to capitalize on unusual or exceptional investment opportunities. The client must be aware of the following risk associated with short-term trading:

- Increased brokerage and other transaction cost – clients may see an increase in brokerage fees, i.e. ticket charges, associated with more frequent trading by the Advisor in the account.
- Short term capital gains taxes – clients may be exposed to short-term capital gains which are generally taxed at a higher rate than long term capital gains.
- Account restrictions and penalties imposed by Mutual Fund Companies – Fund companies may impose restrictions for short-term trading.

### **Selection of specific investments**

Once a base allocation is determined, NFP's Advisors select specific investments. Advisors may recommend a mix of mutual funds, individual stocks, and bonds, exchange traded funds, real estate investment trusts and fixed and variable annuities, if appropriate.

The Advisor considers the sale of securities as the client's investment objectives or risk tolerance changes and warrants a reallocation; when the securities have higher than average gains; to

rebalance asset allocations or if the future outlook for any given security turns unfavorable (i.e. waning performance, lowered earnings guidance, or estimates, etc.).

### **Research Tools**

To aid in their analysis, the Advisors subscribe to a comprehensive software tool, Morningstar Office. In addition, NFP's Advisors utilize research made available through TDAmeritrade's advisory platform such as Street.com, Jaywalk, Argus Research, S&P Ratings, and Ford's Valuation. There are no stipulations regarding trading activity in order to gain access to TDAmeritrade's research sites. They are available regardless of the amount of trading performed by the Advisors.

To review economic trends and market conditions, the Advisors subscribe to a variety of newsletters and publications. The Advisors also use many screening tools and research reports available via the internet. As members of the Financial Planning Association, Advisors have access to and attend Financial Planning workshops that review a host of investment strategies used by Advisors as well as new market developments.

### **Risk of Loss**

Clients must be aware that there is a potential risk of loss whether or not they decide to invest. Investors are obligated to assume a portion of certain risks described below. The amount of risk that they assume varies from investor to investor, and is one of the contributing factors for an Advisor in determining a suitable portfolio for its client. The following is a list of some of the risks that an investor may be exposed to:

- **Market Risk** – Risks that affect the entire market and generally cannot be avoided through diversification.
- **Unsystematic Risk** – Risks specific to a company, industry or sector that may be reduced through diversification.
- **Credit Risk** – The risk that a debtor will not be able to repay its lenders, an important consideration for those investing in fixed-income investments such as bonds.
- **Country Risk** – Risk associated with investing in a foreign country including political risk, exchange rate risk, economic risk, sovereign risk, and the risk of capital being locked up or frozen by government action known as transfer risk.
- **Liquidity Risk** – The risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss.
- **Interest Rate Risk** – The risk of changing interest rates and their impact on interest-bearing assets, such as bonds. In general, as interest rates increase, the price of a fixed rate bond will decrease, and vice versa.
- **Opportunity Cost** – The risk of an over-allocation to cash and the loss of any potential gains the investor would have had if they were invested. Opportunity cost is also a risk an investor bears when strategic asset allocation is used since the Advisor would not be making short term trades to capitalize on specific market opportunities.

**Methodology for Placing Trades**

Advisors primarily place trades in individual accounts; however, occasionally, if the Advisors are recommending the same security to multiple clients at the same time, Advisors may choose to purchase the security in a block account and allocate it to each client according to the number of shares the Advisor determines is the appropriate holding for that particular client. Block trades may result in trading discounts for clients.

**DISCIPLINARY INFORMATION**

Neither NFP nor its Advisors have ever been involved in any legal or disciplinary actions or administrative proceedings brought before the SEC, any other federal regulatory agency, any state regulatory agency, any Self-Regulating Organization such as FINRA, or the Certified Financial Planner Board.

**OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

As FINRA licensed Registered Representatives with Cadaret, Grant & Co., Inc., member FINRA/SIPC, NFP's Advisors offer to provide commission/investment advisory services to clients where custody of the accounts is maintained at Pershing, LLC an affiliate of the Bank of New York Mellon, a member of FINRA/SIPC, and the clearing broker/dealer for Cadaret, Grant.

NFP does not recommend or select other investment advisors for its clients, nor does it have any related persons that are one of the following:

- Broker-dealer, municipal securities dealer, or government securities dealer or broker
- Investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund)
- Other investment advisor or financial planner
- Futures commission merchant, commodity pool operator, or commodity trading advisor
- Banking or thrift institution
- Accountant or accounting firm
- Lawyer or law firm
- Insurance company or agency
- Pension consultant
- Real estate broker or dealer
- Sponsor or syndicator of limited partnerships.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics Disclosure**

NFP has adopted a Code of Ethics Policy. The Code sets forth a standard of business conduct for the Firm and all persons associated with the Firm. The purpose of this Code is to set out ideals for integrity, objectivity, competence, fairness, confidentiality, professionalism and diligence for the Firm and its associated persons to espouse in the interest of the Firm and investor protection. In particular, the Code is designed to:

- Protect the Clients by deterring misconduct
- Guard against violations of the securities laws
- Establish procedures to ensure that Advisors conduct themselves ethically at all times
- Protect NFP's reputation

In an effort to meet the above obligations, the Code sets out policies and procedures that NFP's Advisors are expected to follow in the following areas:

- Compliance
- Privacy and Confidentiality
- Personal securities transactions and reporting
- Insider trading
- Conflicts of interest / outside business activities
- Gifts and Entertainment
- Reporting violations and sanctions
- Record keeping

Clients and prospective clients may obtain a complete copy of NFP's Code of Ethics upon request by contacting their Advisor in writing at 2231 Old Emmorton Road, Bel Air, MD 21015 or calling them at (410) 515-6310.

In accordance with Section 204A of the Investment Advisers Act of 1940, NFP also maintains and enforces written policies and procedures reasonably designed to prevent the misuse of material non-public information by NFP or any access persons of NFP with regards to their personal securities transactions.

### **Privacy Statement**

NFP also protects the personal non-public information of its clients. Employees and Advisors are expected to exercise diligence and care in maintaining and protecting the client's non-public confidential information. NFP holds all personal information provided to the Firm in the strictest confidence.

The records that NFP maintains include all personal information that the Advisors collect from clients in connection with any of the services provided by NFP. NFP has never disclosed information to non-affiliated third parties, except as permitted by law, and does not anticipate

doing so in the future. If NFP were to anticipate such a change in its Firm's policy, it would be prohibited under the law from doing so without revising the firm's policy in writing and providing to the client to ascertain that there is no objection.

All prospective clients are provided a copy of NFP's Privacy Policy at the initial meeting. Active clients are provided a copy of NFP's Privacy Policy annually.

### **Personal Trading Practices**

NFP's Advisor(s) may buy, sell, or hold a position in the same securities which they recommended to their clients. As a fiduciary, NFP's Advisors owe their clients the loyalty to refrain from effecting personal securities transactions that might conflict with the client's best interests.

Conflicts arise when Advisors, employees, or other access persons take advantage of investment opportunities that should have been exercised for clients or when they use their knowledge of pending client transactions to place their trades before their client's transactions. NFP has established policies to mitigate potential conflicts of interest when Advisors, employees, or other access persons place personal securities transactions.

## **BROKERAGE PRACTICES**

### **Recommending Broker/Dealers to Clients**

Currently, NFP and its Advisors recommend Cadaret, Grant & Co., Inc., and its clearing firm Pershing, LLC to their clients that desire commission based brokerage services. TD Ameritrade is recommended to clients that desire fee based advisory services. NFP's Advisors also recommend various Registered Investment Companies to their clients.

NFP's Advisors are Registered Representatives of Cadaret, Grant. Pershing, TD Ameritrade, and other custodians maintain custody of client assets and effects trades for NFP's client accounts. NFP is independently owned and operated and is not affiliated with or a related person of Cadaret, Grant, Pershing, or TD Ameritrade.

NFP's Advisors may recommend other broker/dealers to their advisory clients. Some factors in which NFP considers prior to recommending other broker/dealers include their financial strength, reputation, execution, pricing, research, and service. The Advisors routinely compare order execution disclosure information of Cadaret, Grant, Pershing, and TD Ameritrade to other broker dealers to ensure that Cadaret, Grant, Pershing and TD Ameritrade remain competitive with other broker/dealers in providing best execution for their clients.

### **Research and Other Soft Dollar Benefits**

Even though NFP and its Advisors recommend Cadaret, Grant, Pershing, and TD Ameritrade to their clients, they do not receive any soft dollar benefits from them. A soft dollar arrangement is an agreement between the investment advisor and the broker/dealers' trading department, where the broker/dealer offer to provide certain products and services (pay soft dollars) to the investment advisor in exchange for the advisor directing trades to the broker/dealer. Using a broker/dealer to purchase research in this manner is a practice susceptible to conflicts of interest - particularly if

the broker/dealers' trade commissions are costing clients an additional premium (compared to commissions available from competing brokers).

NFP may receive other products and services from Cadaret, Grant, Pershing or TD Ameritrade that benefit assist NFP in managing and administering the client's accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); facilitate payment of NFP's fees from its client's accounts; and assist with back office functions, record keeping and client reporting. These services may be used to service all or a substantial number of NFP's accounts.

Cadaret, Grant and TD Ameritrade also have arrangements with various product vendors, which enable NFP to purchase their products at a discount. NFP has participated in the purchase of products through Cadaret, Grant and TD Ameritrade at a discount. However, there are not stipulations regarding the level of business or trading activity that NFP transacts through the Broker/Dealers in return for the ability to participate in the discount programs. These products may include such items as software and investment research. NFP does not use the decision to utilize a particular Broker/Dealer solely on the products and services available through that Broker/Dealer at a discount.

### **Brokerage Client Referrals**

It is the practice of some broker/dealers to give client referrals to investment advisors as an incentive for directing business through them. NFP's broker/dealer and custodian do not participate in this business philosophy. Nor does NFP seek broker/dealers with this business philosophy to recommend to their clients as this would create a conflict of interest.

### **Directed Brokerage**

As Registered Representatives of Cadaret, Grant & Co., Inc., NFP's Advisors are prohibited from utilizing the services of another broker dealer without the express written permission of Cadaret, Grant. As stated earlier, TD Ameritrade's Advisory Platform is recommended to clients. However, while it is not encouraged, clients may request that NFP utilize other advisory platforms to execute trades and act as a qualified custodian. NFP's Clients must be aware that if they direct NFP or its Advisors to use a broker/dealer that it may limit NFP or its Advisors the ability to achieve best execution. As a result, clients may pay higher commissions, have higher transaction cost, receive less favorable prices, or restrict NFP's ability to operate efficiently with regard to the client's accounts.

### **Best Execution**

As stated earlier, the Advisors routinely compare order execution disclosure information of Cadaret, Grant, Pershing and TD Ameritrade to other broker dealers to ensure that they remain competitive in providing best execution for their client's security transactions.

The commissions and/or transaction fees charged by Cadaret Grant, Pershing and TD Ameritrade may be higher or lower than those charged by other broker-dealers. The commissions paid by NFP's Clients shall comply with NFP's duty to obtain "best execution." However, a client may pay a commission that is higher than another qualified broker-dealer might charge to affect the same transaction where NFP determines, in good faith, that the commission is reasonable in

relation to the value of the brokerage and services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of broker-dealer services, including among others, execution capability, commission rates, and responsiveness. While NFP and/or its Advisors will seek competitive rates; they may not necessarily obtain the lowest possible commission rates for their client's brokerage transactions in every situation.

## **REVIEW OF ACCOUNT**

Each Advisor will conduct regular reviews of his/her client's accounts, and identify suitable investment choices to replace or add to the investment portfolio. However, the Advisors will not implement any recommendation or execute any transactions in a client's non-discretionary account without prior authorization from the client. Clients may choose to meet with any Advisor of NFP if their regular Advisor is unavailable if the Advisor has the appropriate licensing to accommodate the client's needs.

NFP reconciles the activity in client accounts to the trading instructions of the Advisors. In addition, the broker/dealer Cadaret, Grant reconciles the positions held in client commission based accounts to those reflected by the custodian. NFP reconciles the positions held in client accounts on the TD Ameritrade advisory platform to those on the reports prepared by NFP quarterly. Clients are encouraged to review their reports and confirm that the information provided by the Custodian is consistent with the information provided by NFP.

All advisory accounts are reviewed on a quarterly basis. However, NFP's Advisors will review a client's account more frequently upon their request if the client's profile changes or if economic and market conditions warrant a more frequent review. Clients are responsible for notifying NFP of changes to their financial situation and NFP reminds them to do so with each quarterly review.

Each quarter, NFP will prepare and send to Clients via U.S. mail or electronic delivery a report detailing performance per holding for those assets that re-price on a regular basis. Along with the quarterly performance report, NFP will provide a broad summary of market conditions and special announcements, if applicable. The quarterly review is geared towards a snapshot of your current holdings and how your assets are performing so far year to date. Each quarterly review builds upon the last so that by year end, the report sent to clients includes full year performance. Clients are encouraged to call immediately if they have questions or concerns.

The Advisors conduct annual reviews in person or by conference call with clients or more frequently if necessary or at the request of the client. Annual reviews are designed to be more comprehensive with a review of performance, current market conditions, an update to the client profile and Advisor recommendations, if applicable.

Financial plans are not reviewed automatically. As part of the Financial Plan's presentation and implementation process, clients receive written recommendations of actions to be taken. NFP's Advisors offer to support them with the implementation of the recommended actions. NFP recommends that clients periodically review and update their financial plan; however, NFP does not meet with financial planning clients to do so unless the client requests a review.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

NFP utilizes very little advertising and does not have a website. It relies primarily on client referrals to introduce new clients to their business. It is NFP's policy not to compensate clients for referring potential clients to their business, because the client would be considered a solicitor and would have to satisfy requirements under Rule 206(4)-3 of the Advisers Act before a cash referral fee could be paid to them.

## **CUSTODY**

NFP only has custody of client assets to the extent that it may request the client's custodian to deduct advisory fees directly from the client's account(s).

Clients that have a Fee Based Account, where securities are purchased on TD Ameritrade's advisory platform, will have quarterly management fees automatically deducted from their accounts and paid directly to NFP by the custodian subject to the client's approval. Management fees in all other managed accounts are not automatically deducted from the client accounts by the custodian.

NFP's Advisors are not permitted to exercise custody in any form over client assets or accounts. NFP has established procedures that are designed to help ensure that NFP and its Advisors do not inadvertently obtain custody of client assets, other than for the deduction of advisory fees. To ensure that Advisors do not obtain custody:

- NFP will not act as custodian for any client accounts.
- Clients open accounts through NFP's broker/dealer, a Registered Investment Company or other qualified custodian where the client's assets will be held.
- NFP personnel assist the client with paperwork to open a new account; however, the account may only be opened by signature of the client.
- Custodians send statements, confirmations, proxy material and any other account information directly to the client.
- Clients are encouraged to verify that the reports provided by NFP match the statements received from their custodian.
- NFP will not route original custodial statements to its clients for the custodian.
- NFP will ask clients from time to time if they are receiving their statements and if they have any questions or concerns.
- NFP can only handle and forward checks made payable to a third party.
- Custody regulations prohibit Advisors from forwarding security certificates received by the firm. Certificates received in the mail will be returned to the client immediately.
- Advisors may assist clients with preparing a stock certificate for mailing including attaching a Letter of Instruction so that receipt and deposit into the client's account may be verified. However, the client is responsible for mailing the certificate to the custodian.
- Advisors and employees are prohibited from obtaining, maintaining, or utilizing client log-ins or passwords to access and/or service client self-directed accounts.
- Advisors do not serve as Trustee or Attorney-in-Fact for any client account unless the client is an immediate family member.
- Client securities are not held in NFP's name or in bearer form.



- Proceeds from sale of securities will be deposited in client accounts directly or sent to the address of record of the client by the custodian. NFP does not receive the sales proceeds or distributions from client accounts at any time.
- NFP does not accept checks made payable to NFP for the purchase of securities. NFP only accepts checks made payable to NFP for the payment of management fees.

### **INVESTMENT DISCRETION**

Clients may choose either a discretionary or non-discretionary relationship with NFP. However, regardless of the type of relationship entered into, NFP does not have the discretionary authority to select broker/dealers used to affect the client securities transactions in client accounts. Clients must authorize and sign the opening of all accounts. For more information regarding the authority granted to Advisors in a discretionary relationship, see the section titled "Type of Relationship". In addition, NFP does not have the discretion to determine commission rates that clients pay.

### **VOTING CLIENT SECURITIES**

NFP and its Advisors do not vote proxies. They will not take any action on behalf of the client, and are not obligated to render any advice to the client, with respect to:

- The voting of proxies solicited by, or with respect to, the issuers of any securities held in the portfolio or,
- The legal proceedings involving securities or other investments presently or formerly held in the portfolio, or the issuers thereof, including bankruptcies.

The Custodian will send all such proxy and legal proceedings information and documents it receives to the client so that the client may take whatever action the client deems appropriate.

### **FINANCIAL INFORMATION**

Neither NFP nor its Advisors have ever petitioned or been subject to bankruptcy proceedings, and there are no financial conditions that would prevent NFP or its Advisors from meeting any contractual commitment to its clients. NFP charges management fees in arrears.