

# **DISCLOSURE BROCHURE**

(Form ADV, Part 2A)

## **CAPITAL FORMATION STRATEGIES, INC.**

**Registered Investment Advisor**

**Firm 111124**

**(SEC: # 801-80916)**

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This brochure provides prospective clients with information about Capital Formation Strategies, Inc. that should be considered prior to engaging our advisory services. If you have any questions about the contents of this brochure, please contact us at: 651-644-8412, or by email at: [info@capform.net](mailto:info@capform.net). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

December, 2017

Capital Formation Strategies, Inc.





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# Advisory Business

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## Firm Description

Capital Formation Strategies, Inc. is a fee-only financial planning and asset management firm that provides personal financial planning and investment management to individuals, pension and profit sharing plans, trusts, estates, and small businesses.

Capital Formation Strategies was founded in 1985 and is solely owned by Donald A. Johnson.

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## Types of Professional Services

### Financial Planning

Capital Formation Strategies creates a personal financial plan for each client that is consistent with client's financial circumstances, goals and objectives. The planning strategies and techniques used to create a personal financial plan fall within the following general categories:

- Business Continuation Planning – Financial options are analyzed with respect to continuation or disposition of the business owner's retirement, death or decision to sell
- College Education Funding – Cash requirement illustrations are provided along with appropriate recommendations outlining methods to provide education funds.
- Estate Planning – Analysis includes estate cash flow sheet illustrations depicting present estate plan, alternative estate plans, estate liquidity and survivor needs (income). When appropriate, an analysis also includes life and disability insurance, portfolio review and recommendations.
- Financial Independence – A feasibility study of semi or complete retirement at various ages given specific assumptions relating to income needs and asset growth.
- Employee Benefits – This analysis includes advice with respect to present programs, alternatives and advancements in the areas of health, welfare, executive compensation, and qualified pension and profit sharing plans.

- Investment Planning - A written investment report analyzing client's current portfolio, recommended portfolio modifications, and treatment of the tax and cash flow implications of various investment strategies.

### Asset Management Program

Capital Formation Strategies will recommend specific investments within the following asset classes:

#### Domestic Equity Funds

- |             |                           |
|-------------|---------------------------|
| - Large Cap | - Conservative Allocation |
| - Mid Cap   | - Moderate Allocation     |
| - Small Cap | - Specialty               |

#### International Equity Funds

- |                 |                    |
|-----------------|--------------------|
| - Foreign Stock | - Regional Stock   |
| - World Stock   | - Emerging Markets |

#### Bond Funds

- |                    |             |
|--------------------|-------------|
| - Investment Grade | - Specialty |
| - High Yield       | - Municipal |

#### Exchange Traded Funds

#### Closed-end Funds

#### Individual Stock and Bonds

#### REITS

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### **Types of Agreements**

The following agreements define our typical client relationships.

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#### **Financial Planning Agreement**

A financial plan is designed to help the client with all material aspects of financial planning pursuant to what client discloses without ongoing investment management after the financial plan is completed.

The financial plan may include, but is not limited to: a net worth statement; a cash flow statement; a review of investment accounts, including a review of asset allocation and providing repositioning recommendations; strategic tax planning; a review of retirement accounts and plans including:

Recommendations: a review of insurance policies and recommendations for changes, if necessary; one or more retirement scenarios; estate planning review and recommendations; and education planning with funding recommendations.

Detailed investment advice and specific recommendations may be provided as part of a financial plan. Implementation of the recommendations is at the discretion of the client.

The fee for a financial plan is determined based upon the facts known at the start of the engagement.

In the event that the client's situation is substantially different than disclosed at the initial meeting, a revised fee will be provided for mutual agreement. The client must approve the change of scope in advance of the additional work being performed when a fee increase is necessary.

After delivery of a financial plan, future face-to-face meetings may be scheduled as necessary.

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### **Investment Advisory Agreement**

Most clients choose to have Capital Formation Strategies, Inc. manage their assets in order to provide continuous portfolio supervision. All aspects of the client's financial affairs which client discloses are reviewed. In collaboration with client, Capital Formation Strategies, Inc. and client agree upon reasonable and measurable goals and the means to achieve them. As goals and objectives change over time, Capital Formation Strategies, Inc. and client will review on an ongoing basis, and revise objectives and implement changes as agreed upon.

The Investment Advisory Service Agreement fee is based on a percentage of the investable assets according to the following schedule:

0.80% on the first \$500,000

0.70% excess of \$500,000

Although the Investment Advisory Service Agreement is an ongoing agreement, the length of service to the client is at the client's discretion. The client or Capital Formation Strategies may terminate an Agreement by written notice to the other party. At termination, fees will be billed on a pro rata basis for the portion of the quarter completed. The portfolio value at the completion of the prior full billing quarter is used as the basis for the fee computation, adjusted for the number of days during the billing quarter prior to termination.



## Fees and Compensation

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### Description

Financial plans are priced according to the degree of complexity associated with the plan and are quoted on a flat fee basis. Fees for Financial plans are billed 50% with the balance due upon delivery of the financial plan.

Investment management fees are based on a percentage of assets under management and are billed quarterly, in advance. Fees are usually deducted from a designated client account to facilitate billing. The client must consent in advance to direct debiting of their account.

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### Other Fees

Our custodians may charge transaction fees on purchases or sales of certain mutual funds, exchange-traded funds, stocks, or bonds. These transaction charges are incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian may charge to buy or sell the security.

Capital Formation Strategies, Inc. does not share in any transaction fees a custodian may charge.

## Performance-Based Fees

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### Sharing of Capital Gains

Capital Formation Strategies, Inc. does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

## Types of Clients

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### Description

Capital Formation Strategies, Inc. generally provides investment advice to individuals, pension and profit sharing plans, trusts, estates, or business entities.

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**Account Minimums**

The minimum account size is \$300,000 of assets under management. Capital Formation Strategies retains the right to waive the account minimum.

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

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**Methods of Analysis**

Security analysis methods primarily include fundamental analysis or technical analysis.

The main sources of information include financial newspapers, magazines, research materials prepared by others, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases.

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**Risk of Loss**

All investment programs have certain risks that are borne by the investor. We implement our investment approach in a way designed to moderate and mitigate the various risks each client assumes by investing client's assets in the capital markets. Investor-clients face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, coupons on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of

profitability than electric companies which generate income from a steady stream of customers who buy electricity, no matter what the economic environment may be.

- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

## Disciplinary Information

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### Legal and Disciplinary

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

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

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### Code of Ethics

The employees of Capital Formation Strategies, Inc. have committed to a Code of Ethics that is available for review by clients and prospective clients upon request. The firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

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### Participation or Interest in Client Transactions

Capital Formation Strategies and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades.

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### Personal Trading

The Chief Compliance Officer of Capital Formation Strategies, Inc. is Thomas A. Hannon. He reviews all employee trades each quarter. The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm receive preferential treatment.

## Brokerage Practices

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### Selecting Brokerage Firms

Capital Formation Strategies, Inc. recommends Charles Schwab & Co. as a qualified custodian.

Capital Formation Strategies, Inc. does not receive fees or commissions from any of its custodial arrangements.

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### Best Execution

Capital Formation Strategies, Inc. reviews the execution of trades at Charles Schwab & Co. and Mainstar Trust Company on an ongoing basis. Trading fees charged by the custodians are also reviewed on a quarterly basis.

Capital Formation Strategies, Inc. does not receive any portion of the trading fees. Capital Formation Strategies, Inc. receives investment research as part of its custodial relationship with Charles Schwab. All clients benefit from this research as it reduces the firm's overall expenses.

## Review of Accounts

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### Periodic Reviews

Account reviews are performed quarterly by Donald A. Johnson, CEO, and Thomas A. Hannon, CCO. Account reviews are performed more frequently depending on market conditions.

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### Review Triggers

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's own situation.

## Client Referrals and Other Compensation

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### Incoming Referrals

Capital Formation Strategies, Inc. has been fortunate to receive many client referrals over the years. The referrals came from current clients, estate planning attorneys, accountants, employees, personal friends of employees and other similar sources. The firm does not compensate referring parties for these referrals.

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### Referrals Out

Capital Formation Strategies, Inc. does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

## Custody

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### Account Statements

All assets are held at Charles Schwab & Co. or Mainstar Trust Company. The custodians provide account statements directly to clients at their address of record at least quarterly.

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### Performance Reports

Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided by Capital Formation Strategies, Inc.

## Investment Discretion

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### Discretionary Authority for Trading

Clients of Capital Formation Strategies, Inc. sign a Limited Power of Attorney form which allows it to execute trades at Charles Schwab & Co. or Mainstar Trust Company. This Limited Power of Attorney is required by our custodians and permits us to execute trades on your behalf.

## Voting Client Securities

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### Proxy Votes

Capital Formation Strategies, Inc. does not vote proxies on securities. Clients are expected to vote their own proxies.

When assistance on voting proxies is requested, Capital Formation Strategies, Inc. may provide recommendations to the Client. If a conflict of interest exists, it will be disclosed to the Client.

## Business Continuity Plan

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### General

Capital Formation Strategies, Inc. has a Business Continuity Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications, services or key people.

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### **Loss of Key Personnel**

Capital Formation Strategies, Inc. has signed a Business Continuation Agreement with another financial advisory firm to support Capital Formation Strategies, Inc. in the event of Donald Johnson's serious disability or death.

## **Information Security Program**

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### **Privacy Notice**

Capital Formation Strategies, Inc. is committed to maintaining the confidentiality, integrity and security of the personal information entrusted to it.

The categories of nonpublic information that we collect from you may include information about your personal finances, information about your health to the extent that it is needed for the financial planning process, information about transactions between you and third parties, and information from consumer reporting agencies, e.g., credit reports. We use this information to help you meet your personal financial goals.

With your permission, we disclose limited information to attorneys, accountants, and mortgage lenders with whom you have established a relationship. You may opt out from our sharing information with these nonaffiliated third parties by notifying us at any time by telephone, mail, fax, email, or in person. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf.

We maintain a secure office to ensure that your information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment.

We do not provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our Company records and your personal records as permitted by law.

Personally identifiable information about you will be maintained while you are a client, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our privacy policy is expected to change. We are required by law to deliver this *Privacy Notice* to you annually, in writing.

## Form ADV, Part 2B

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### Education and Professional Standards

Investment advisors that represent Capital Formation Strategies, Inc. are required to have a minimum of two years of financial planning and investment advisory experience combined with a four year degree from an accredited institution. Capital Formation Strategies, Inc. will also engage the services of attorneys, accountants, and other professionals to assist in financial and legal analysis.

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### INVESTMENT ADVISORS & CHIEF COMPLIANCE OFFICER

Donald A. Johnson

Date of birth: 1948

Education: 1970 University of St. Thomas B.A.  
1972 University of St. Thomas M.A.

Business Experience: 1985-Present, Capital Formation Strategies, Inc.

Disciplinary Information: None

Arbitration Claims: None

Administrative Proceeding: None

Bankruptcy Petition: None

Thomas A. Hannon

Date of birth: 1990

Education: 2013 University of St. Thomas B.A.  
Series 65, 2015

Business Experience: 2011-2013 Union Bank of Switzerland  
2014-Present. Capital Formation Strategies, Inc.

Disciplinary Information: None

Arbitration Claims: None

Administrative Proceeding: None

Bankruptcy Petition: None

