

# **Financial Decisions, Inc.**

**5345 North El Dorado, Suite 15  
Stockton, CA 95207**

**Phone: 209-957-7413  
Fax: 209-957-1516**

**[www.financialdecisionsinc.com](http://www.financialdecisionsinc.com)**

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## **FORM ADV PART 2 BROCHURE**

This brochure provides information about the qualifications and business practices of Financial Decisions, Inc. If you have any questions about the contents of this brochure, please contact us at 209-957-7413. 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 Financial Decisions, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for 118883.

Financial Decisions, Inc. is a Registered Investment Adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

## Item 2 Summary of Material Changes

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Since the filing of our last annual updating amendment, dated February 4, 2016 we have the following material changes to report.

We disclosed that we may provide advice on IRA rollovers and described considerations and certain conflicts of interest relevant thereto.

We disclosed that in the event there are any changes to our policies and practices with regard to disclosing nonpublic personal information as disclosed in our privacy notice, we will deliver a copy of an amended privacy notice to you on an annual basis.

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## Item 4 Advisory Business

### Description of Services and Fees

Financial Decisions, Inc. is a registered investment adviser based in Stockton, California. We are organized as a corporation under the laws of the State of California and we have been providing investment advisory services since 1983. Fred Lee and Nancy Lee are our principal owners. We provide a variety of investment advisory services including retirement planning, pension consulting, portfolio management and selection of other advisors.

The following paragraphs describe our services and fees. Please refer to the description of each investment advisory service listed below for information on how we tailor our advisory services to your individual needs. As used in this brochure, the words "we", "our" and "us" refer to Financial Decisions, Inc. and the words "you", "your" and "client" refer to you as either a client or prospective client of our firm. Also, you may see the term Associated Person throughout this Brochure. As used in this Brochure, our Associated Persons are our firm's officers, employees, and all individuals providing investment advice on behalf of our firm.

### Retirement Planning

Our retirement planning services will typically involve providing a variety of services, principally advisory in nature, to clients regarding the management of their retirement financial resources based upon an analysis of their individual needs. An investment adviser representative will first conduct a complimentary initial consultation with you. During or after the initial consultation, if you decide to engage us for retirement planning services, additional meetings will be conducted during which pertinent information about your financial circumstances and objectives is collected. Once we review and analyze such information, we will provide you with a written retirement savings plan designed to achieve your financial goals and objectives. Subjects addressed in an initial plan and/or periodic reviews of a plan may include the following:

- Personal Data and Retirement Goals
- Retirement Income
  - Social Security
  - Pension Plan
  - Additional Retirement Income
- Capital Injection of Funds such as:
  - Sale of Home
  - Sale of Business
  - Inheritance
- Income Requirements such as:
  - College Education Funding
  - Living Expenses
- Income Variables During Retirement
- Asset Allocation Advice
  - Taxable Investments
  - Tax Free Investments
  - Qualified Tax Deferred Investments
- Insurance Needs and Recommendations
- Asset allocation advice

For clients who retain us to provide portfolio management services, we may also provide periodic consultative retirement planning services where we may address specific subjects on an as needed or requested basis.

Retirement plans are based on your financial situation at the time the plan is presented and are based on the financial information disclosed by you to our firm. Clients are advised that certain assumptions may be made with respect to interest and inflation rates and the use of past trends and performance of the market and economy. Past performance is in no way an indication of future performance. We cannot offer any guarantees or promises that your financial goals and objectives will be met. As your financial situation, goals, objectives, or needs change, you must notify us promptly.

### **Pension Consulting Services**

We provide pension consulting services designed to assist retirement plan sponsors, trustees and/or plan committees in meeting their plan management and fiduciary obligations under the Employee Retirement Income Security Act or other applicable law.

We offer pension consulting services to Retirement and Qualified Plans, including Pension Plans, 401(k) and 403(b) Plans, Profit Sharing Plans, Defined Benefit Plans, Simple IRA Plans and SEPs which may include the following:

- Existing Plan Review
- Creation or Review of Investment Policy Statements
- Creation of Portfolio Diversification Models
- Recommendation of Plan Menu of Investments
- Participant Education
- Specific Asset Allocation Advice to Plan Participants
- Portfolio Performance Reporting
- Reviews of Third Party Advisers upon request
- Annual Reviews of Plan Menu of Investments

For new clients, we charge a negotiable fee of up to \$400 per hour or a negotiable flat fee for retirement planning and pension consulting services. We will provide you with an estimate of the total cost at the start of the advisory relationship. In limited circumstances, the cost/time could potentially exceed the initial estimate. In such cases, we will notify you and request that you approve the additional fee. A deposit of 50% of the total estimated fee will be due in advance and the remainder will be due upon completion of the services rendered. Under no circumstances will the Firm charge in excess of \$1200 and for six months or more in advance.

On occasion, we will provide a standalone service where we will develop a plan's menu of investments. We charge a fixed fee for this service, which will vary on a case by case basis, depending on the client, the size of the plan and other relevant factors.

Either party, upon written notice to the other, may terminate the Retirement Planning or Pension Consulting agreement. In the event of termination, you will be charged for a portion of the work performed and any prepaid unearned fees will be refunded to the client, as applicable.

### **Portfolio Management Services**

We provide discretionary portfolio management services tailored to meet your needs and investment objectives. If you retain our firm for portfolio management services, we will meet with you to determine your investment objectives, risk tolerance, and other relevant information (the "suitability information") at the beginning of our advisory relationship. We will use the suitability information we gather to

develop a strategy that enables our firm to give you continuous investment advice. As part of our portfolio management services, we may customize an investment portfolio for you in accordance with your risk tolerance and investing objectives or we may also invest your assets according to one or more model portfolios developed by our firm. Once we construct an investment portfolio for you, or select a model portfolio, we will monitor your portfolio's performance on an ongoing basis, and will rebalance the portfolio as required by changes in market conditions and your financial circumstances.

We require you to grant our firm discretionary authority to manage your account. Discretionary authorization will allow our firm to determine the specific securities, and the amount of securities, to be purchased or sold for your account without your approval prior to each transaction. Discretionary authority is typically granted by the investment advisory agreement you sign with our firm or trading authorization forms.

Upon execution of the portfolio management agreement, an initial set up fee may be due and payable which fee will vary on a case-by-case basis depending on the complexity of the set up of the client's account(s).

Our negotiable fee for portfolio management services is based on a percentage of assets under management based on the following annualized fee schedules:

<b>Assets Under Management</b>	<b>Annualized Fee**</b>
\$0 - \$500,000	1.00%
\$500,001 - \$1,000,000	0.80%
\$1,000,001 - \$2,000,000	0.60%
\$2,000,001 - \$5,000,000	0.40%
Over \$5,000,000	0.20%

For individual accounts, in addition to the fee schedule stated above, we charge a negotiable client servicing fee based on a percentage of the client's net worth based on the following fee schedule:

<b>Net Worth</b>	<b>Annualized Fee**</b>
\$0 - \$2,000,000	0.25%
\$2,000,001 - \$5,000,000	0.15%
Above \$5,000,000	0.10%

\*\*Existing clients may be charged lower/different fees.

The annual fee for portfolio management services is billed either quarterly in advance based on the market value of the assets under management on the last day of the preceding calendar quarter or quarterly in arrears based on the market value of the assets under management on the last day of the calendar quarter. In the alternative, fees may be based on the average daily market value of the assets under management during the quarter/previous quarter, as applicable. The value may be part of an account or a portion of a Plan assets as agreed between our firm and the client.

At our discretion, we may combine the account values of family members living in the same household to determine the applicable advisory fee. For example, we may combine account values for you and your minor children, joint accounts with your spouse, and other types of related accounts. Combining account values may increase the asset total, which may result in you paying a reduced advisory fee.

We will send you an invoice for the payment of our advisory fee, or we will deduct our fee directly from your account through the qualified custodian holding your funds and securities. We will deduct our advisory fee only when you have given our firm written authorization permitting the fees to be paid directly from your account. Further, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements from your account. You should review all statements for accuracy.

Individual clients may terminate the management agreement upon written notice to our firm and Plan clients may terminate the agreement upon 30 days written notice to our firm. You will incur a pro rata charge for services rendered prior to the termination of the agreement, which means you will incur advisory fees only in proportion to the number of days in the quarter for which you are a client. Any pre-paid unearned fees will be refunded, pro-rata, based on the number of days in the quarter during which you were a client.

### **Selection of Other Advisers**

As part of our investment advisory services, we may recommend that you use the services of a third party investment adviser ("TPA") to manage a portion of your investment portfolio. After gathering information about your financial situation and objectives, we may recommend that you engage a specific TPA or investment program. Factors that we take into consideration when making our recommendation(s) include, but are not limited to, the following: the TPA's performance, methods of analysis, fees, your financial needs, investment goals, risk tolerance, and investment objectives. We will monitor the TPA(s)' performance at least quarterly and make any recommendations to you as necessary.

The TPA's fees are separate and in addition to our advisory fees and we will include the assets managed by the TPA in calculating our portfolio management fee stated above. The advisory fee you pay to the TPA is established and payable in accordance with the disclosure brochure provided by each TPA to whom you are referred. These fees may or may not be negotiable. You should review the recommended TPA's disclosure brochure and take into consideration the TPA's fees along with our fees, as applicable, to determine the total amount of fees associated with this program.

You will be required to sign an agreement directly with the recommended TPA(s). You may terminate your advisory relationship with the TPA according to the terms of your agreement with the TPA. You should review each TPA's disclosure brochure for specific information on how you may terminate your advisory relationship with the TPA and how you may receive a refund, if applicable. You should contact the TPA directly for questions regarding your advisory agreement with the TPA.

### **Advisory Services to Retirement Plans**

As disclosed above, we offer pension consulting services designed to assist plan sponsors in meeting their management and fiduciary obligations to participants under the Employee Retirement Income Securities Act ("ERISA"). In addition, in providing portfolio management services to Plans, we are acting as an ERISA 3(38) investment manager. Pursuant to adopted regulations of the U.S. Department of Labor under ERISA Section 408(b)(2), we are required to provide the Plan's responsible plan fiduciary (the person who has the authority to engage us as an investment adviser to the Plan) with a written statement of the services we provide to the Plan, the compensation we receive for providing those services, and our status (which is described below).

The services we provide to Plans are described above, and in the service agreement that you have signed with our firm. Our compensation for these services is described above, and also in the service agreement. Our firm does not reasonably expect to receive any other compensation, direct or indirect, for the services we provide to the Plan or Participants.

In providing services to the Plan and Participants, our status is that of an investment adviser registered under the Investment Advisers Act of 1940, and we are not subject to any disqualifications under Section 411 of ERISA. In performing ERISA fiduciary services, we are acting as a fiduciary of the Plan as defined in ERISA Section 3(21).

### **Types of Investments**

We primarily offer advice on no load mutual funds, corporate and municipal bonds and certificates of deposit.

You may request that we refrain from investing in particular securities or certain types of securities. You must provide these restrictions to our firm in writing.

### **Assets Under Management**

As of December 31, 2016, we provide continuous management services for \$308,373,313 in client assets on a discretionary basis.

## **Item 5 Fees and Compensation**

Please refer to the *Advisory Business* section in this Brochure for information on our advisory fees, fee deduction arrangements, and refund policy according to each service we offer.

### **Additional Fees and Expenses**

As part of our investment advisory services to you, we may invest, or recommend that you invest, in mutual funds. The fees that you pay to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds (described in each fund's prospectus) to their shareholders. These fees will generally include a management fee and other fund expenses. You will also incur transaction charges and/or brokerage fees when purchasing or selling securities. These charges and fees are typically imposed by the broker-dealer or custodian through whom your account transactions are executed. We do not share in any portion of the brokerage fees/transaction charges imposed by the broker-dealer or custodian. To fully understand the total cost you will incur, you should review all the fees charged by mutual funds, our firm, and others. For information on our brokerage practices, please refer to the *Brokerage Practices* section of this Brochure.

### **Compensation for the Sale of Insurance Products**

#### *Insurance*

We are under common ownership with Western Associates, Inc. d/b/a Western Associates Insurance Services, a licensed insurance agency. Western Associates and associated persons of our firm, in their capacity as insurance agents, may effect transactions in insurance products for clients and earn commissions for these activities. Insurance commissions earned are separate and in addition to our advisory fees. This practice presents a conflict of interest because persons providing investment advice on behalf of our firm who are insurance agents have an incentive to recommend insurance products to you for the purpose of generating commissions rather than solely based on your needs. However, you are under no obligation, contractually or otherwise, to purchase insurance products through any person affiliated with our firm.

Any material conflicts of interest between you and our firm, or our employees are disclosed in this Disclosure Brochure. If at any time, additional material conflicts of interest develop, we will provide you with written notification of the material conflicts of interest or an updated Disclosure Brochure.



## **IRA Rollover Considerations**

As part of our investment advisory services to you, we may recommend that you withdraw the assets from your employer's retirement plan and roll the assets over to an individual retirement account ("IRA") that we will manage on your behalf. If you elect to roll the assets to an IRA that is subject to our management, we will charge you an asset based fee as set forth in the agreement you executed with our firm. This practice presents a conflict of interest because persons providing investment advice on our behalf have an incentive to recommend a rollover to you for the purpose of generating fee based compensation rather than solely based on your needs. You are under no obligation, contractually or otherwise, to complete the rollover. Moreover, if you do complete the rollover, you are under no obligation to have the assets in an IRA managed by our firm.

Many employers permit former employees to keep their retirement assets in their company plan. Also, current employees can sometimes move assets out of their company plan before they retire or change jobs. In determining whether to complete the rollover to an IRA, and to the extent the following options are available, you should consider the costs and benefits of:

An employee will typically have four options:

1. Leaving the funds in your employer's (former employer's) plan.
2. Moving the funds to a new employer's retirement plan.
3. Cashing out and taking a taxable distribution from the plan.
4. Rolling the funds into an IRA rollover account.

Each of these options has advantages and disadvantages and before making a change we encourage you to speak with your CPA and/or tax attorney.

If you are considering rolling over your retirement funds to an IRA for us to manage here are a few points to consider before you do so:

1. Determine whether the investment options in your employer's retirement plan address your needs or whether you might want to consider other types of investments.
  1. Employer retirement plans generally have a more limited investment menu than IRAs.
  2. Employer retirement plans may have unique investment options not available to the public such as employer securities, or previously closed funds.
2. Your current plan may have lower fees than our fees.
  1. If you are interested in investing only in mutual funds, you should understand the cost structure of the share classes available in your employer's retirement plan and how the costs of those share classes compare with those available in an IRA.
  2. You should understand the various products and services you might take advantage of at an IRA provider and the potential costs of those products and services.
3. Our strategy may have higher risk than the option(s) provided to you in your plan.
4. Your current plan may also offer financial advice.
5. If you keep your assets titled in a 401k or retirement account, you could potentially delay your required minimum distribution beyond age 70.5.
6. Your 401k may offer more liability protection than a rollover IRA; each state may vary.
  1. Generally, federal law protects assets in qualified plans from creditors. Since 2005, IRA assets have been generally protected from creditors in bankruptcies. However, there can be some exceptions to the general rules so you should consult with an attorney if you are concerned about protecting your retirement plan assets from creditors.
7. You may be able to take out a loan on your 401k, but not from an IRA.
8. IRA assets can be accessed any time; however, distributions are subject to ordinary income tax

and may also be subject to a 10% early distribution penalty unless they qualify for an exception such as disability, higher education expenses or the purchase of a home.

9. If you own company stock in your plan, you may be able to liquidate those shares at a lower capital gains tax rate.

10. Your plan may allow you to hire us as the manager and keep the assets titled in the plan name.

It is important that you understand the differences between these types of accounts and to decide whether a rollover is best for you. Prior to proceeding, if you have questions contact your investment adviser representative, or call our main number as listed on the cover page of this brochure.

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

We do not accept performance-based fees or participate in side-by-side management. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees.

Performance-based fees are fees that are based on a share of capital gains or capital appreciation of a client's account. Our fees are calculated as described in the *Advisory Business* section above, and are not charged on the basis of a share of capital gains upon, or capital appreciation of, the funds in your advisory account.

## **Item 7 Types of Clients**

We offer investment advisory services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, and other business entities.

In general, we require a minimum of \$250,000 to open and maintain an advisory account. At our discretion, we may waive this minimum account size. For example, we may waive the minimum if you appear to have significant potential for increasing your assets under our management. We may also combine account values for you and your minor children, joint accounts with your spouse, and other types of related accounts to meet the stated minimum.

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

### **Our Methods of Analysis and Investment Strategies**

We primarily use a strategic asset allocation method using an asset class-based approach to investment analysis. Asset class-based analysis is a method of evaluating assets based upon their type (stocks, bonds, commodities, REITs), size (market capitalization) and style (value or growth). We construct portfolios using modern portfolio theory, based upon long term historical and expected return and risk characteristics of each underlying asset class.

Our firm may recommend a bond laddering strategy to implement a portion of an investment portfolio. This approach is based on the principle of cash-matching a client's income needs using fixed income strategies, or to provide predictable fixed income returns while protecting principal and reducing volatility in all interest rate cycles. The strategy includes purchasing fixed income securities with the intent to hold them until maturity. The strategy is implemented by Asset Dedication, LLC, an unaffiliated money manager that specializes in designing and implementing bond ladder portfolios. Investment performance will vary based upon the success or failure of Asset Dedication's investment strategy, research and analysis, and selection of fixed income securities in the bond ladder.

We may use one or more of the following methods of analysis or investment strategies when providing investment advice to you:

- **Charting and Technical Analysis** - We may use charting and technical analysis to evaluate broad markets and market sectors, including trends, relative strength, support and resistance, and momentum. Charting and technical analysis may involve studying past patterns and trends in the financial markets to predict the direction of the overall market. The risk of this method is that markets may follow random patterns and may not be predictable with any reliable degree of accuracy.
- **Fundamental Analysis** - We may use fundamental analysis to examine the underlying indicators of the well being of the economy and market sectors. This type of analysis may be incorrect and the analysis may not provide an accurate estimate of the economic outlook or market sectors.
- **Cyclical Analysis** - We may use cyclical analysis to look at business cycle data. When utilizing cyclical analysis, economic/business cycles may not be predictable and may have many fluctuations between long term expansions and contractions. The lengths of economic cycles may be difficult to predict with accuracy and therefore the risk of cyclical analysis is the difficulty in predicting economic trends and consequently the changing value of markets that would be affected by these changing trends.
- **Long Term Purchases** - securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.
- **Short Term Purchases** - securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year. We generally engage in short term purchases of bonds and certificates of deposit for liquidity purposes only.

Our investment strategies and advice may vary depending upon each client's specific financial situation. As such, we determine investments and allocations based upon your defined objectives, risk tolerance, time horizon, financial horizon, financial information, liquidity needs, and other various suitability factors. Your restrictions and guidelines may affect the composition of your portfolio.

Our strategies and investments may have unique and significant tax implications. However, unless we specifically agree otherwise, and in writing, tax efficiency is not our primary consideration in the management of your assets. Regardless of your account size or any other factors, we strongly recommend that you continuously consult with a tax professional prior to and throughout the investing of your assets.

As a result of revised IRS regulations, custodians and broker-dealers will begin reporting the cost basis of equities acquired in client accounts on or after January 1, 2011. Unless advised otherwise, the custodian will default to average cost for the cost basis for mutual fund transactions and the FIFO (First In First Out) accounting method as the method for calculating the cost basis of all other investments. You are responsible for determining if this accounting method is the right choice for you. If you believe another accounting method is more advantageous, please provide written notice to our firm at or before the time your custodial account is opened and we will alert your account custodian of your individually selected accounting method. Please note that decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

### **Risk of Loss**

Risk is inherent in all investing. Past investment performance is not indicative of future investment results. Expectations about market performance in setting asset allocation strategies are guidelines and are not guaranteed. Investing in securities involves risk of loss of principal that each client should be prepared to bear. The principal risks are that the future return and risk of the portfolios will vary from the assumptions used in constructing the portfolios. Investment portfolios will have varying degrees of risk based upon the different levels of underlying investments.

### **Recommendation of Particular Types of Securities**

As disclosed under the *Advisory Business* section in this Brochure, we primarily recommend no load mutual funds, corporate and municipal bonds and certificates of deposit.

Mutual funds are professionally managed collective investment systems that pool money from many investors and invest in stocks, bonds, short-term money market instruments, other mutual funds, other securities or any combination thereof. The fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. While mutual funds generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market, primarily invests in small cap or speculative companies, uses leverage (i.e., borrows money) to a significant degree, or concentrates in a particular type of security (i.e., equities) rather than balancing the fund with different types of securities. The returns on mutual funds can be reduced by the costs to manage the fund. Also, while some mutual funds are "no load" and charge no fee to buy into, or sell out of, the fund, other types of mutual funds do charge such fees which can also reduce returns.

Each fund investment is managed to a specific investment objective and principal investment strategies to achieve the investment objective, as outlined in the fund prospectus. The principal risk is that the fund manager may not achieve the objective set and the fund could lose money or underperform market expectations. This could result in the client's portfolio underperforming the targeted risk and return.

Municipal bonds, while generally thought of as safe, can have significant risks associated with them including, but not limited to: the credit worthiness of the governmental entity that issues the bond; the stability of the revenue stream that is used to pay the interest to the bondholders; when the bond is due to mature; and, whether or not the bond can be "called" prior to maturity. When a bond is called, it may not be possible to replace it with a bond of equal character paying the same amount of interest or yield to maturity.

Corporate bonds are typically safer investments than equity securities, but their risk can also vary widely based on: the financial health of the issuer; the risk that the issuer might default; when the bond is set to mature; and, whether or not the bond can be "called" prior to maturity. When a bond is called, it may not be possible to replace it with a bond of equal character paying the same rate of return.

Certificates of deposit are generally one of the safest types of investments since they are insured by the federal government up to a certain amount. However, because the returns are generally very low, it's possible for inflation to outpace the return.

## **Item 9 Disciplinary Information**

Financial Decisions has been registered and providing investment advisory services since 1983. Neither our firm nor any management persons has any reportable disciplinary information.

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

### **Insurance Arrangements**

We are affiliated with Western Associates, Inc. d/b/a Western Associates Insurance Services, a licensed insurance agency. Western Associates will earn commission-based compensation for selling insurance products. Insurance commissions earned are separate from our advisory fees. Please see the *Fees and Compensation* section in this Brochure for more information.

### **Third Party Pension Administrator**

We are under common control and ownership with Fred M. Lee Financial Corp. d/b/a Financial Decisions, a pension administration services company which provides consulting and administration services to trustees of qualified pension plans.

We exclusively refer clients to Fred M. Lee Financial Corp. d/b/a Financial Decisions for pension administration services and Fred M. Lee Financial Corp. d/b/a Financial Decisions exclusively refers clients to our firm for investment advisory services. There is an inherent conflict of interest given the affiliation of the firms and clients are hereby advised that the fees charged by our firm are separate and apart from the fees charged by Fred M. Lee Financial Corp d/b/a Financial Decisions. While the companies believe their fees are competitive, clients are advised that lower fees for comparable services may be available in the marketplace and clients are under no obligation to use the services of either company.

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

### **Description of Our Code of Ethics**

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for our Associated Persons. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All of our Associated Persons are expected to adhere strictly to these guidelines. Our Code of Ethics also requires that certain persons associated with our firm submit reports of their personal account holdings and transactions to a qualified representative of our firm who will review these reports on a periodic basis. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm.

Our Code of Ethics is available to you upon request. You may obtain a copy of our Code of Ethics by contacting us at the telephone number on the cover page of this Brochure

### **Participation or Interest in Client Transactions**

Neither our firm nor any of our Associated Persons has any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in this Brochure.

### **Personal Trading Practices**

Our firm or persons associated with our firm may buy or sell securities for you at the same time we or persons associated with our firm buy or sell such securities for our own account. We may also combine our orders to purchase securities with your orders to purchase securities ("block trading"). Please refer to the "Brokerage Practices" section in this Brochure for information on our block trading practices.

A conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To mitigate this conflict of interest, it is our firm policy that we shall not have priority over your account in the purchase or sale of securities.



## Item 12 Brokerage Practices

We recommend the brokerage and/or custodial services of either MG Trust Company or Charles Schwab Trust Company for Qualified Plans depending on the size of the plan, complexity of investments, types of plan services and cost considerations. MG Trust and Charles Schwab Trust Company charge separate fees for custody services.

We also recommend that clients in need of brokerage and custodial services utilize Charles Schwab & Co., Inc. (Schwab), registered broker-dealer, member SIPC, among others, as the qualified custodian.

We are independently owned and operated and are not affiliated with Schwab. Schwab will hold your assets in a brokerage account and buy and sell securities when we instruct them to. While we suggest that you use Schwab as custodian/broker, you will decide whether to do so and will open your account with Schwab by entering into an account agreement directly with them. We do not open the account for you, although we may assist you in doing so. Even though your account is maintained at Schwab, we can still use other brokers to execute trades for your account as described below (see "*Your Brokerage and Custody Costs*").

### **Your Brokerage and Custody Costs**

For our clients' accounts that Schwab maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account.

Schwab's commission rates applicable to our client accounts were negotiated based on the condition that our clients collectively maintain a total of at least \$10,000,000 of their assets in accounts at Schwab. This commitment benefits you because the overall commission rates you pay are lower than they would be otherwise. In addition to commissions, Schwab charges you a flat dollar amount as a "prime broker" or "trade away" fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account. We have determined that having Schwab execute most trades is consistent with our duty to seek "best execution" of your trades.

### **Products and Services Available to Us From Schwab**

Schwab Advisor Services (formerly called Schwab Institutional) is Schwab's business serving independent investment advisory firms like us. They provide us and our clients with access to its institutional brokerage - trading, custody, reporting, and related services - many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts, while others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (we don't have to request them) and at no charge to us as long as our clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab. If our clients collectively have less than \$10 million in assets at Schwab, Schwab may charge us quarterly service fees of \$1,200. Following is a more detailed description of Schwab's support services:

Schwab Advisor Services has provided us with a one-time fee waiver of up to \$1500 for Portfolio Center Hands-On Training offered by Schwab Performance Technologies in a regional classroom setting.

**Services 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 or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

**Services That May Not Directly Benefit You.** Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. 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
- Assist with back-office functions, record keeping, and client reporting services that generally benefit only us.

Schwab also offers other services 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
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional business entertainment of our personnel.

### **Our Interest in Schwab's Services**

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services so long as our clients collectively keep a total of at least \$10 million of their assets in accounts at Schwab. Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. The \$10 million minimum may give us an incentive to recommend that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see "*How We Select Brokers/Custodians*") and not Schwab's services that benefit only us.

As of December 2013 we had approximately \$196,000,000 in client assets under management on a discretionary basis (see Assets Under Management Section above), and we do not believe that recommending our clients to collectively maintain at least \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.

We believe that the broker-dealer custodian and trust companies we recommend provide quality services for you at competitive prices. 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 services, including among others, the value of research provided, execution capability, commission rates/fees, and responsiveness. Paying a firm a higher commission rate/fee than another broker/firm might charge is permissible if the difference in cost is reasonably justified by the quality of the brokerage/custodial services offered.

### **Block Trades**

Generally, we combine multiple orders for shares of the same securities purchased for advisory accounts we manage (this practice is commonly referred to as "block trading"). We will then distribute a portion of the shares to participating accounts in a fair and equitable manner. The distribution of the shares purchased is typically proportionate to the size of the account, but it is not based on account performance or the amount or structure of management fees. Subject to our discretion, regarding particular circumstances and market conditions, when we combine orders, each participating account pays an average price per share for all transactions and pays a proportionate share of all transaction costs. Accounts owned by our firm or persons associated with our firm may participate in block trading with your accounts; however, they will not be given preferential treatment.

## **Item 13 Review of Accounts**

Fred Lee, President, Tolen Teigen, Chief Compliance Officer, and/or Kenneth Herold and Kevin Mahoney, Investment Adviser Representatives, will monitor portfolio management accounts on a continuous basis, with an internal review conducted at least quarterly. Additional reviews may be conducted based on various circumstances, including, but not limited to:

- changes in your financial circumstances;
- contributions and withdrawals;
- year-end tax planning;
- market moving events;
- security specific events; and/or,
- changes in your risk/return objectives.

For all portfolio management clients we review and compare the performance of model portfolios against blended benchmarks using standard industry indexes. Individual fund performance is compared with its benchmark index and peer group performance.

For investment clients with accounts valued at over \$250,000, we provide quarterly reports of investment activity and performance. For all pension clients whose assets are custodied at MG Trust Company or Charles Schwab Trust Company we provide quarterly reports of investment value and activity.

We may review/update retirement plans upon request of the client. Such reviews/updates are subject to our regular fee rate stated above.

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

We do not receive any compensation from any third party in connection with providing investment advice to you nor do we compensate any individual or firm for client referrals.



Please refer to the "Brokerage Practices" section above for disclosures on research and other benefits we may receive resulting from our relationship with Schwab.

## **Item 15 Custody**

As paying agent for our firm, your independent custodian will directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. In addition, in the capacity as third party administrator, our affiliate, Fred M. Lee Financial Corp has custody over client funds/securities which maybe imputed to our firm. Your funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian. You will receive account statements from the independent, qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will show the assets in your account and indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy. The periodic reports we provide to you also reflect the amount of advisory fee deducted from your account.

You should compare our reports with the statements from your account custodian(s) to reconcile the information reflected on each statement. If you have a question regarding your account statement or if you did not receive a statement from your custodian, please contact us directly at the telephone number on the cover page of this brochure.

## **Item 16 Investment Discretion**

You may grant our firm discretion over the selection and amount of securities to be purchased or sold for your account(s) without obtaining your consent or approval prior to each transaction. You may specify investment objectives, guidelines, and/or impose certain conditions or investment parameters for your account(s). For example, you may specify that the investment in any particular stock or industry should not exceed specified percentages of the value of the portfolio and/or restrictions or prohibitions of transactions in the securities of a specific industry or security. Please refer to the *Advisory Business* section in this Brochure for more information on our discretionary management services.

## **Item 17 Voting Client Securities**

We will not vote proxies on behalf of your advisory accounts. At your request, we may offer you advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of common stock or mutual funds, you are responsible for exercising your right to vote as a shareholder.

In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case, we would forward any electronic solicitation to vote proxies.

## **Item 18 Financial Information**

Our firm does not have any financial conditions or impairments that would prevent us from meeting our contractual commitments to you.

## **Item 19 Requirements for State Registered Advisers**

We are a federally registered investment adviser therefore this section is not applicable.

## **Item 20 Additional Information**

### **Your Privacy**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any nonpublic personal information about you to any non affiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to nonpublic personal information about you to employees who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your nonpublic personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. In the event there are any changes to our policies and practices with regard to disclosing nonpublic personal information as disclosed in our privacy notice, we will deliver a copy of an amended privacy notice to you on an annual basis. Please contact Tolen Teigen at 209-957-7413, if you have any questions regarding this policy.

### **Trade Errors**

From time-to-time we may make an error in submitting a trade order on your behalf. In these situations, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account.

If a profit results from the correcting trade, the profit will remain in your account unless the same error involved other client account(s) that should have received the gain, it is not permissible for you to retain the gain, or we confer with you and you decide to forgo the gain (e.g., due to tax reasons).

If the profit does not remain in your account and Schwab is the custodian, Schwab donates gains of \$100 or more to charity. If a loss occurs greater than \$100, our firm will pay for the loss. Schwab may retain gains of \$100 or less, if they are not kept in your account, to offset administrative expenses. Generally, if related trade errors result in both gains and losses in your account, they may be netted.

### **Class Action Lawsuits**

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation nor do we initiate or participate in litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you.