



**Part 2A of Form ADV: Firm Brochure**

**Dated: January 1, 2018**

**Item 1. Cover Page**

<b>Name of Registered Investment Adviser:</b>  <b>PARADIGM FINANCIAL ADVISORS, LLC</b>	
<b>Address:</b>  12231 Manchester Road Des Peres, MO 63131	<b>President &amp; CEO:</b>  James T. Reding Jreding@pfaclient.com
<b>Phone:</b>  314-966-3400	<b>Website:</b>  www.pfaclient.com

This brochure provides information about the qualifications and business practices of Paradigm Financial Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at 314-966-3400. 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. Registration with the SEC does not imply a certain level of skill or training.

Additional information about Paradigm Financial Advisors, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2. MATERIAL CHANGES SUMMARY**

This brochure is required to be updated at least annually or sooner when material changes to our business take place. For your convenience we have identified and discussed below all changes that have taken place since our last update of this brochure on **June 1, 2017.**

- Assets under management totals updated to 12/31/2017 (Item Four)
- Review of Accounts: Section A. Frequency and Triggering Factors: We removed the portion that mentions Matthew Schaller reviews client portfolios every six months. The lead Advisor maintains this responsibility.
- Review of Accounts: Section B. Client Reports: We removed the section that states we will provide clients with a schedule of realized taxable gains and losses annually. This will still be provided to clients upon request.

### **Item 3. Table of Contents**

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## Item 4. Advisory Business

Paradigm Financial Advisors, LLC ("PFA") is an investment advisor registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940, as amended, a fiduciary under Section 3(21) of ERISA, and has been operating as an investment advisory firm since 1997. On December 30, 2011, James T. Reding became the sole principal owner of PFA. Robert Spindel remains an investment advisory representative but is moving towards semi-retirement. Bradley Combs became an investment advisory representative in May 2011, Ryan Powers became an investment advisory representative in September 2012, and Matthew Schaller became an investment advisory representative in September 2015. Mr. Powers was named Director of Wealth Management in 2015. Mr. Powers was named Managing Director in 2017.

PFA was formed for the purpose of creating a federally-registered investment advisory firm to provide investment advisory and monitoring services to high net worth and financially sophisticated clients, along with comprehensive financial planning and advisory services. All services rendered are provided on a "fee only" basis. We do not sell any commission based products.

PFA's primary approach for clients is objective professional advice with recommendations geared to individual life goals, current and future resources and personal constraints. By putting goal achievement ahead of investment performance, the intended result is a wealth management program dedicated to the client, instead of solely investment results-oriented advice. PFA customizes asset allocation and financial planning strategies for clients with the goal of enhancing their financial quality of life.

PFA provides continuous investment supervisory services, manages investment advisory accounts not involving investment supervisory services, furnishes investment advice through consultations, and furnishes advice to clients on additional financial matters not involving securities. These services include financial planning, portfolio management for individuals and small businesses, and retirement plan consulting services.

Individual Stocks, Bonds, Mutual Funds and Exchange Traded Funds are the primary investments we use for client portfolios. If appropriate for the client and or upon their preference, other such investments may include other Equity Securities, Corporate Debt Securities, Certificates of Deposit, other Investment Company Securities including Variable Life Insurance, Variable Annuities, U.S. Government Securities, Options Contracts, Private Placements, and Partnership Investing, including those investing in equipment leasing and commercial real estate that have been approved for federal income tax credits.

With respect to both PFA's financial planning and investment advisory services, our program typically involves the creation of an Investment Policy Statement and Retirement Analysis, which essentially serves as our client's "roadmap." It provides a long-term vision of what is to be achieved and articulates the strategy that will be used to pursue the personal goals of the client. The development of and monitoring of such a plan is an ongoing activity. It provides the criteria for making appropriate changes, as well as the discipline or structure for realistically pursuing a client's specific objectives. PFA reviews financial data and personal goals and objectives, such as financial, estate, tax and charitable planning, provided by the client to determine the appropriate recommendations suitable for the client's wealth management program, retirement income and investment strategy. The client may also impose restrictions on investing in certain securities or types of securities.

For smaller accounts that we manage as a courtesy to clients, such as client employee SEP plans, an Investment Policy Statement may not be created. Investment recommendations are made based upon the client's risk tolerance level as determined from their client profile questionnaire.

More specific information regarding our services is as follows:

1. **INVESTMENT ADVISORY AGREEMENT FOR INDIVIDUALS:** PFA provides continuous investment supervisory services for client assets that are generally held in accounts with Schwab Advisor Services or TD Ameritrade Institutional or occasionally with another custodian. Schwab Advisor Services is a division of Schwab & Co. For Accounts held at TD Ameritrade Institutional, clearing of securities transactions is handled through TD Ameritrade Clearing, Inc.

Under our advisory agreement, assets are held with one or more broker accounts selected by the client for custody and execution service. PFA is independent and unaffiliated with any broker-dealer. The clients work with PFA to authorize and direct PFA to purchase and sell stocks, bonds, mutual funds, exchange traded funds, and other investments consistent with the client's investment objectives.

PFA also provides continuous investment supervisory services for assets held outside of Schwab Advisor Services or TD Ameritrade Institutional to include and coordinate the client investment assets (wherever held) with the client's overall family wealth management plans. Such assets may include individual 401(k) accounts, IRA's, deferred compensation plans and brokerage accounts.

Client will be asked to sign a Pin Authorization Form, authorizing the Advisor to log into their online account and purchase, sell, exchange or otherwise trade in securities on behalf of client, pursuant to their advisory agreement. If online access is not available or if Client chooses not to allow Advisor to have online access to their account, Client is responsible for providing PFA with reasonably timely and accurate information (copies of appropriate statements and confirmations of individually held securities/assets) and client is responsible for the actual execution/implementation (buy/sell/etc.) of any recommendations made by PFA with respect to these outside assets listed in Schedule B under Outside Assets in the Advisory Agreement. Further, PFA assumes no responsibility for Client's failure to follow recommendations made by PFA. If Client and PFA terminate their advisory agreement, PFA will destroy all password information and ask the Client to change their login credentials.

2. **COMPREHENSIVE FINANCIAL PLANNING:** PFA Clients may choose to receive ongoing COMPREHENSIVE FINANCIAL PLANNING, described as follows:

- a. PERSONALIZED INVESTMENT PLANNING: development of investment policy statement or statement of specific investment objectives, review of client goals and objectives, determination of an appropriate asset allocation, selection of individual securities or specific mutual funds, and exchange traded funds, monitoring of performance, and rebalancing recommendations for portfolio as necessary.
- b. FINANCIAL PLANNING AND FORECASTING: projected future values, inflation adjusted income, and tax analysis.
- c. IMPLEMENTATION PLAN: sources and use of funds and time horizons.
- d. MONITORING: consolidated detailed reporting and evaluation on quarterly basis.
- e. COORDINATION WITH OVERALL FINANCIAL PLANS: cash flow, budgeting, tax, retirement income, education funding, insurance sufficiency, estate and legacy planning, development, implementation and execution of stock option strategies, development of tax credit strategies, business advisory and consulting services for existing clients or new clients referred to PFA by others, and advice on securities.
- f. VALUE ADDED ADVICE: PFA provides clients these comprehensive services to try to add value in a variety of areas to help clients develop and remain "on track" with their long term plans. Clients should seek outside counsel with their Attorney and/or CPA on legal and tax issues prior to implementing any

recommendations we make. We will work closely with your attorney, CPA and any other advisor as may be necessary to implement the conclusions you reach.

**3. COMPANY SPONSORED RETIREMENT PLAN ADVISORY SERVICES:** For various company sponsored retirement plans such as pension, profit sharing and 401(k)'s, PFA is acting as a fiduciary of the Plan under the Employee Retirement Income Security Act ("ERISA") Section 3(21), and an investment manager under ERISA Section 3(38) for purposes of managing the Plan assets. Fiduciary services offered:

- Analyze the Plan's current investment and record keeping platform, and identify and recommend appropriate custodial and administrative services.
- Manage the assets of the Plan, selecting investment alternatives to be available under the Plan in accordance with the Plan's investment policies and objectives. Advisor shall have the final decision-making authority regarding the initial selection, retention, removal and addition of investment options.
- Assist the Client in the development of an investment policy statement (IPS). The IPS establishes the investment policies and objectives for the Plan. Client shall have the ultimate responsibility and authority to establish such policies and objectives and to adopt and amend the investment policy statement.
- Monitor and evaluate investment options and prepare periodic investment reports for the client that document investment performance, consistency of fund management and conformance to the guidelines set forth in the IPS.
- Meet with Client on a periodic basis to discuss the reports and the investment recommendations.
- Select a qualified default investment alternative ("QDIA") for participants who are automatically enrolled in the Plan or who otherwise fail to make an investment election. The Client retains the sole responsibility to provide all notices to participants required under ERISA section 404(c)(5).

Non-Fiduciary services offered:

- Provide an analysis of the fees and expenses associated with the investments and the service providers.
- Perform benchmarking services, and provide an analysis concerning the operations of the Plan.
- Assist in the education of the participants in the Plan about general investment principles and the investment alternatives available under the Plan. Advisor's assistance in participant investment advice and education shall be consistent with and within the scope of Department of Labor Interpretive Bulletin 96-1. As such, the Advisor is not providing fiduciary advice (as defined in ERISA) to the participants.
- Assist in the group enrollment meetings designed to increase retirement plan participation among employees and investment and financial understanding by the employees. Advisor may provide these services or, alternatively, may arrange for the Plan's other providers to offer these services, as agreed upon between Advisor and Plan Sponsor.

PFA provides investment advice to clients on either a non-discretionary or a discretionary basis. As of December 31, 2017, PFA's total assets under management are as follows:

Discretionary Clients = \$406,151,815

Non-Discretionary Clients = \$67,672,374

Total = \$473,824,189

## Item 5. Fees and Compensation

**A. Advisory Agreement Fee Schedules:** PFA has three (3) separate fee schedules depending upon where assets are held:

**1. FOR ASSETS HELD AT SCHWAB OR TD AMERITRADE:** PFA charges an annual fee, which is a percentage of client's assets under management, according to the following fee schedule:

<u>Assets Under Management</u>	<u>Fee</u>
\$1 to \$450,000 .....	1.50%
\$450,001 to \$700,000 .....	1.25%
\$700,001 to \$1,000,000 .....	1.00%
\$1,000,001 to \$1,500,000 .....	0.85%
\$1,500,001 and Over .....	0.75%

These fees charged by Advisor may be negotiated and vary among clients for similar services.

**2. FOR ASSETS HELD OUTSIDE OF PRIMARY CUSTODIANS:** PFA charges an annual fee, which is a percentage of client's assets under management, according to the following fee schedule:

<u>Assets Under Management</u>	<u>Fee</u>
\$1 to \$450,000 .....	0.75%
\$450,001 to \$700,000 .....	0.625%
\$700,001 and Over .....	0.50%

Assets from Schwab or TD Ameritrade may be combined with outside assets to determine applicable fee level. These fees charged by Advisor may be negotiated and vary among clients for similar services.

**3. FOR COMPANY SPONSORED RETIREMENT PLANS:** PFA charges an annual fee, which is a percentage of the Plans assets under management, according to the following fee schedule:

<u>Assets Under Management</u>	<u>Fee</u>
\$1 to \$1,000,000 .....	1.00%
\$1,000,001 to \$5,000,000 .....	0.75%
\$5,000,001 to \$10,000,000 .....	0.50%
\$10,000,001 to \$20,000,000 .....	0.30%
\$20,000,001 and Over .....	0.20%

These fees charged by Advisor may be negotiated and vary among clients for similar services.

An additional one-time fee may be charged for benchmarking services, but is typically waived if PFA serves as Investment Manager. Advisor does not reasonably expect to receive any other compensation, direct or

indirect, for its Services to Company Sponsored Retirement Plans. PFA does not receive any 12b-1 fees paid by mutual fund companies. If PFA receives any other compensation for such services, PFA will (i) offset that compensation against its stated fees, and (ii) will disclose the amount of such compensation, the services rendered for such compensation and the payer of such compensation to Plan Sponsor pursuant to the terms of its advisory agreement.

**Generally.** PFA enters into an Investment Advisory Service Agreement with each advisory client calling for the payment of fees payable quarterly in advance based upon the fair market value of the account on the last day of the preceding calendar quarter expressed as a percentage of value. PFA's fees do not include custodial fees or securities transaction fees, if any, charged by client's custodian. Mutual funds in which client's assets may be invested charge additional advisory fees and other expenses, as described in each fund's prospectus. ***See additional information under Item 12.***

Fees charged by Advisor may be negotiated and vary among clients for similar services. The fees shall be due and payable, one quarter in advance, at the beginning of each quarter, based on the fair market value, including accrued interest, of the account as of the last business day of the prior quarter. The fee is calculated by multiplying the fair market value of the account by the annual fee rate and dividing by four. When management services commence on anything but the first day of such a period, the fee for the opening period shall be prorated by the number of days of service divided by total period days and based on the fair market value of the portfolio under management on or about the day the account is received. Fee calculation is based on the actual market value of the securities, not reduced by any margin loans.

Remittance in the full amount of the management fees shall be collected by the custodian of Client's account by debiting Client's accounts and liquidating securities selected by the Advisor, if necessary. Multiple client accounts (family sponsored) may be linked and aggregated to Client's other advisory accounts, for determining applicable fee level. Client authorizes and directs said custodian to pay to Advisor its management fees. If Client has more than one account, fees may be aggregated and deducted from any of the Client's accounts. In very limited circumstances, Client may send in a check payable to Paradigm Financial Advisors, LLC for their management fees rather than deducting from their account(s). Client is responsible for verifying the accuracy of the fee calculation shown on their monthly statement, as the custodian will not. The agreement provides for a prorated refund of fees paid in advance if the agreement terminates prior to the end of a quarter, with said fee being returned to the client within 30 days in a normal course of business.

For Company Sponsored Retirement Plans, PFA is authorized to invoice the record keeper or third party administrator directly for our fees. The fee is billed quarterly in arrears, and based upon the total market value of the plan as of the last business day of the quarter. The fee is calculated by multiplying the asset value of the account by the annual fee rate and dividing by four and will be due the following business day. The Plan Sponsor is responsible for verifying the accuracy of the fee calculation. All advisory fees are deducted from plan assets, unless otherwise requested by the Plan Sponsor. If the Plan is initiated or terminated during the quarter, the fee for that quarter will be prorated to cover only the period for which the Plan was serviced.

Agreements can be terminated by either party at any time upon five days written notice (30 days for company sponsored retirement plans). The Agreement will automatically terminate in the event of its assignment, unless the Client consents to such assignment. In the event of a change in control of ownership of the Advisor that would constitute an "assignment" under the Investment Advisers Act of 1940, as amended, Advisor will provide written notice to Client and Client will be deemed to consent to the assignment absent written notice of termination of this Agreement by Client within 30 days from the date of such notice.



## **B. Other Fees and Compensation**

Prospective comprehensive financial planning clients receive from PFA a description of the various levels of services they will be provided. PFA and the client sign a Financial Planning Agreement outlining the basic terms of the agreement and fee quoted.

Comprehensive Financial Planning: The standard financial planning retainer fee is \$3,500 per year, but this fee may be negotiated to a higher or lower amount, based on the individual financial planning needs of each client. Fees can be based on either a retainer or an hourly staff rate of \$115/hour which reflects the scope, degree of complexity and length of time involved in each unique engagement.

Financial Planning fees are refundable to client if client is not completely satisfied with the planning services provided.

### **Item 6. Performance Based Fees and Side by Side Management**

PFA does not charge any performance based fees.

### **Item 7. Types of Clients and Minimum Requirements**

PFA generally provides investment advice to individuals (including trusts and estates), high net worth individuals, company retirement plans including pension and profit sharing plans, corporations and/or business or government entities.

PFA does have certain minimum thresholds that have been established to allow PFA to provide the high level of personal services and attention which we believe our clients deserve. PFA has a minimum dollar asset value for opening a client account of \$500,000. All minimum account size amounts may be lowered by PFA in its discretion. When a PFA client asks us to accept someone in their family or company that is important to them but does not meet our minimum requirements, PFA may waive its minimums.

PFA will typically “link” an employee/associate or family member of the client (referred to as a “family-sponsored” account) to their accounts for the purpose of determining account minimums and/or the applicable fee level.

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

PFA’s investment philosophy is based on a core/tactical asset allocation strategy. PFA’s method of security analysis is generally fundamental, based upon sources of information from research materials, corporate rating services, financial newspapers and magazines, annual reports, prospectuses, filings with the SEC and company press releases.

The investment strategies used to implement investment advice given to clients may include long term purchases, short term purchases, and margin transactions.

**Equity Market Risk.** The prices of equity securities held in your portfolio (or underlying funds) may decline in response to certain events taking place around the world, including those directly involving the companies

whose securities you own; conditions affecting the general economy; overall market changes; local, regional or global, political, social or economic instability; and currency, interest rate and commodity price fluctuations. Equity securities may involve large price swings and potential for loss. Clients should have a long-term perspective and be able to tolerate potentially sharp declines in value.

**Management Risk.** There is no guarantee of a client's portfolio's performance or that your portfolio will meet its objective. The market value of a client's investments may decline and they may suffer investment loss. PFA's investment strategies may fail to produce the intended results. If PFA's expectations for a particular asset class are not realized in the expected timeframe, your overall performance may suffer.

**Municipal Securities Risk.** Municipal securities rely on the creditworthiness or revenue production of their issuers or auxiliary credit enhancement features. Municipal securities may be related in such a way that political, economic or business developments affecting one obligation would affect the others. Tax authorities are paying increased attention as to whether interest on municipal obligations is tax exempt, and we cannot assure you that a tax authority will not successfully challenge the exemption of a bond held in your portfolio. The ongoing issues facing the national economy are negatively impacting the economic performance of many issuers of municipal securities, and may increase the likelihood that issuers of securities in which you may invest may be unable to meet their obligations.

**Investment Company Securities Risk.** With respect to investments in other investment companies (including ETFs, mutual funds, and money market funds), you will indirectly bear any fees and expenses charged by the underlying funds in addition to PFA's direct fees and expenses. Therefore, you could incur higher expenses, many of which may be duplicative. In addition, you may be affected by losses of the underlying funds and the level of risk arising from the investment practices of the underlying funds (such as the use of leverage by the funds).

**Mutual Fund Risk.** PFA believes its buy and hold strategy for mutual funds reduces volatility over longer investment time horizons, but mutual funds also face risks based on the investments they hold. Asset allocation and diversification may help to reduce risk but may not protect a portfolio from overall market decline. Mutual funds are subject to internal fees and expenses which are charged against the assets of the mutual fund. These internal charges are an inherent expense of client's account and do not usually occur when purchasing individual securities. In volatile times, mutual funds may face short term redemptions that could force clients to sell securities at a loss.

**Exchange Traded Fund Risk.** An Exchange Trade Fund's (ETF) shares may trade at a market price above or below their net asset value, and an active trading market for an ETF's shares may not develop or be maintained.

**Government Securities Risk.** Not all U.S. government securities are backed by the full faith and credit of the U.S. government. It is possible that the U.S. government would not provide financial support to certain of its agencies or instrumentalities if it is not required to do so by law. If a U.S. government agency or instrumentality in which you (or an underlying fund) invest defaults and the U.S. government does not stand behind the obligation, the value or yield of your portfolio could fall.

**Debt Securities Risk.** When you invest in fixed income securities or in underlying funds that own fixed income securities, the value of your investment and the return of such underlying funds will fluctuate with changes in interest rates. Inflation-indexed bonds decline in value when real interest rates rise. Long-term bonds are generally more sensitive to interest rate changes than short-term bonds. Issuers of fixed-income securities

may default on interest and principal payments. Generally, securities with lower debt ratings have greater credit risk. The issuer of a debt security may fail to pay interest or principal when due.

## **Item 9. Disciplinary Information**

In its history, neither PFA, nor any of its investment advisory representatives, have been the subject of any kind of legal or disciplinary event. This includes criminal or civil actions, administrative proceedings, or self-regulatory organization proceedings.

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

Mr. Reding, as a licensed attorney, also maintains an estate and tax law practice. Mr. Reding spends less than 10% of his time on this other activity.

The relationship of The Reding Law Firm, LLC and Paradigm Financial Advisors, LLC, are separate and distinct. As a PFA client, you are under no obligation to use the legal services of the attorneys at The Reding Law Firm, LLC by virtue of your association with Paradigm Financial Advisors, LLC. Advisory clients are free to choose other lawyers/law firms to implement and/or draft estate planning documents based on financial estate planning advice received from PFA.

James T. Reding is the principal of Paradigm Financial Advisors, LLC, and therefore has a financial interest in that company. Mr. Reding's financial services are separate from the legal services of The Reding Law Firm, LLC. Any asset management fee paid to Paradigm Financial Advisors, LLC is a separate and distinct fee from any legal fee charged by The Reding Law Firm, LLC.

The legal fees charged by The Reding Law Firm, LLC have not been discounted in any effort to provide incentive for engaging Paradigm Financial Advisors, LLC, and James T. Reding to perform financial services. Any legal fees charged by The Reding Law Firm, LLC are separate, reasonable, and distinct from any asset management fees or retainer fees paid to PFA.

You have been advised that you may seek independent counsel in regards to any potential conflict of interest that may arise in relation to any legal services being provided by The Reding Law Firm, LLC.

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

Related persons of PFA may buy and sell securities they also recommend to clients. Client transactions must be executed before a transaction in the same security by a related person of PFA. In certain circumstances, pre-approval of trading by the CCO may be required. Further, such related persons will not compete with PFA's clients in connection with such securities transactions. Clients may have investment strategies different from related persons. We are not obligated to buy, sell or recommend a security for a client that we may buy, sell or recommend for any other client or for our own accounts. PFA adopts and follows policies and procedures regarding securities transactions of its related persons commensurate with its activities and duties to clients. PFA has adopted policies and procedures based on the principle that PFA and its employees owe a fiduciary duty to clients.

PFA has established, maintains and enforces a written Code of Ethics pursuant to Rule 204A-1 under the standards of conduct required of all associated persons to protect the best interest of our clients. The Code of

Ethics requires advisory personnel to avoid activities or interests that might interfere with making decisions in the best interests of PFA's clients. In addition, it requires its advisory personnel or supervised persons to submit periodic reports of securities transactions to PFA's CCO for review and to pre-clear transactions in certain securities. In addition, each person subject to these requirements is required to report all violations of which such person becomes aware to the Chief Compliance Officer. PFA has also adopted an insider trading policy that prohibits its employees from trading on material, non-public information. PFA will provide a copy of its Code of Ethics and/or insider trading policy, free of charge, upon the written or oral request of any current or prospective client.

## **Item 12. Brokerage Practices**

### **A. Selecting a Broker-Dealer/Custodian**

PFA does not maintain custody of client assets. Client assets must be maintained in an account at a "qualified custodian", generally a broker-dealer or a bank. PFA may recommend that clients use Schwab Advisor Services or TD Ameritrade Institutional Services as their broker-dealer/custodian, but ultimately the client will decide whether to do so and open your account by entering into an account agreement directly with the custodian. We do not open the account for you. The selection of a custodian or brokerage firm is at the client's option. We are independently owned and operated and not affiliated with our recommended custodians. The custodian will hold your assets in a brokerage account and buy and sell securities when we instruct them to.

The choice of a custodian for a Company Sponsored Retirement Plan is driven by the selection of the plan record keeper. It is important that the plan record keeper have electronic trading and settlement capabilities with the designated custodian.

We seek to recommend a custodian/broker who will hold your assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:

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

At least annually, the principal and/or trader of PFA conducts a review of its recommended broker-dealer(s)/custodian(s). PFA's review includes, but is not limited to: Protection of Client's Interest, Full Range of Quality of Service, Overall Fees and Account Costs, and Execution Capability and Quality. As part of this periodic review, PFA considers the service and cost of other providers to determine whether any change should be made. The client should be aware that lower commissions or better execution may be able to be

achieved elsewhere. Also considered, Schwab and TD Ameritrade provide PFA with ongoing assurance that it provides best execution.

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

PFA does not recommend or select certain custodians, brokers or dealers based on the value of products, research or services received. If products, research or services are received, they are received as part of the execution process or custodial relationship.

PFA does not participate in “soft-dollar” arrangements, and we do not direct commission business to any broker-dealer in exchange for products and services.

PFA participates in investment institutional advisory programs offered by Schwab Advisor Services and TD Ameritrade Institutional and, as a result, PFA receives certain benefits. Schwab Advisor Services and TD Ameritrade provide PFA with access to its institutional trading and custody services, which are typically not available to Schwab or TD Ameritrade retail investors. These services generally are available to independent investment advisors on an unsolicited basis (we don’t have to request them) and at no charge to us as long as we keep a total of at least \$10 million of our clients’ assets in accounts at Schwab. These services are not contingent upon PFA committing to Schwab any specific amount of business. Schwab and TD Ameritrade’s brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For PFA client accounts custodied at Schwab or TD Ameritrade, Schwab and TD Ameritrade generally do not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through Schwab or TD Ameritrade or that settle into the accounts.

Schwab Advisor Services and TD Ameritrade also make available to PFA other products and services that benefit PFA but may not directly benefit its clients’ accounts. Many of these products and services may be used to service all or some substantial number of PFA’s accounts, including accounts not maintained at Schwab or TD Ameritrade.

Schwab and TD Ameritrade’s products and services that assist PFA in managing and administering clients’ accounts include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of PFA’s fees from its clients’ accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

Schwab and TD Ameritrade also offer other services intended to help PFA manage and further develop its business. These services may include: (i) technology, compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. Schwab and TD Ameritrade may make available, arrange and/or pay third-party vendors for the types of services rendered to PFA. Schwab or TD Ameritrade may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to PFA. Schwab and TD Ameritrade may also provide other benefits such as educational events or occasional business entertainment of PFA personnel.

In evaluating whether to recommend that clients custody their assets at Schwab or TD Ameritrade, PFA may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers and not solely the nature, cost or quality of custody and brokerage services provided by Schwab or TD Ameritrade, which may create a potential conflict of interest.

The availability of these services from our custodian benefits us because we do not have to produce or purchase them. We don't have to pay for these 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 our selected custodians, based on our interest in receiving 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 or TD Ameritrade as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of their services and not the services that benefit only us.

### **C. Directed Brokerage, Trade Aggregation, Trade Error**

PFA executes client securities transactions primarily through the custodial broker-dealer selected by the client.

When using Schwab or TD Ameritrade as the broker-dealer custodian, PFA typically executes transactions only with such firm. If executing transactions directly with specialists and market makers outside Schwab or TD Ameritrade, PFA would be required to transfer trades back into customer accounts at Schwab or TD Ameritrade, with additional transfer charges. Also, PFA may not be able to achieve the same volume of negotiated transactions as Schwab Advisor Services or TD Ameritrade Institutional Services, which would increase transaction costs. In PFA's judgment, Schwab and TD Ameritrade provide better qualitative execution than PFA could executing with a market maker or specialist and then transferring the security back into the client's account.

The custodian executing the client's order charges each client a commission to execute transactions in the customer's account. The custodian, not PFA, determines the standard commission rate charged to PFA's clients and, while PFA recommends only those custodians whose commission rates PFA believes are competitive, transactions may not always be executed at the lowest available commission rate. PFA strives to execute securities for clients so that total account costs and qualitative execution are the most favorable under the circumstances. With respect to fixed income transactions executed by PFA's representatives through Schwab or TD Ameritrade Institutional, the advisory representative determines, based on a commission schedule adopted by Schwab or TD Ameritrade Institutional, the mark-up or mark-down assigned to bond transactions executed on behalf of clients of PFA. Such commissions are within the guidelines for bond commissions approved by Schwab or TD Ameritrade Institutional. PFA believes such commissions are competitive within the industry.

PFA may bundle separate trade orders of clients if trades in the same security are indicated for more than one account at the same time under similar circumstances. Bundling orders means aggregating, bunching, combining or grouping orders of various individual clients for purposes of executing the orders together as one order, and may be referenced in many varying ways. PFA receives no other benefit as a result of bundling trades. In bundling orders, the intent is to obtain volume discounts, better price or greater efficiencies on behalf of clients. When bundling orders, the trades are allocated to client accounts in writing in advance of the order being placed. Once the order is executed, the trades are allocated to the clients according to the

written allocation. PFA allocates costs associated with a bundled trade on a pro rata basis among all the client accounts involved in a bundled trade. No client account may be favored over any other client account. Given that there may be more than one custodian involved, clients may receive different prices based upon the time the order is entered and executed. We will not favor the clients of any given custodian and will enter the orders involving multiple custodians on a random basis. Client orders are never bundled with orders of any employee or associated person.

In the event of a partially filled transaction, it is our decision to allocate in such a manner to minimize the transaction costs for a given trade taking into consideration the relative size of the trade and impact of each account.

On infrequent occasions, an error may be made in a client account. If a trading error occurs, the source and cause for the error shall be determined. If the error is the fault of the broker/custodian, the broker/custodian shall correct the error and bear any resulting costs. If the error is the fault of PFA, PFA shall bear the costs of the error. The costs of an order error shall not be borne by the client.

For trade errors resulting in a gain, it is each custodian and PFA's policy that the credit balance will be moved to an error account and then distributed to charity.

The details of each error will be documented by the trader and submitted to the Compliance Officer for review and filed in PFA's Error Account file.

## **Item 13. Review of Accounts**

### **A. Frequency and Triggering Factors**

For investment advisory clients, the lead Advisor has the primary responsibility for reviewing and monitoring client accounts. Typically, they introduce the client to the firm and are most familiar with the clients' personal financial situation. PFA reviews client accounts at least quarterly, upon client request, or in a response to a change in the client's circumstances. The reviews include performance, asset allocation, income and expenses.

Upon engagement for comprehensive financial planning, the client and the lead Advisor determine the frequency and triggering factors for review, such as changes in tax laws, client circumstances or other defined changes in circumstances. The client and PFA jointly determine the nature and scope of reviews based on the client's needs and objectives.

In reviewing accounts, in most instances, PFA considers the client's wealth management plan, if any, the extent to which that plan is being met, the client's risk tolerance level, and whether any adjustments are needed. Typically, PFA offers clients at least an annual review meeting, with an updated IPS, along with any additional recommendations, observations or commentary on significant events.

### **B. Client Reports**

Client Investment Advisory Services. PFA provides written quarterly reports to all clients. These quarterly reports contain an asset allocation, performance summary, and portfolio evaluation of position summary, cost basis and unrealized gains and losses.

Comprehensive Financial Planning. After the initial engagement, clients receive a comprehensive financial plan. Any subsequent reports are as agreed with the client, and may include revisions, changing the plan and projections reflecting the changes.

Company Sponsored Retirement Plans. PFA provides the Plan Sponsor an annual report that details the plan's portfolio by asset class category and category risk and return and conforms to the Plans IPS. Actual returns are measured against an appropriate benchmark.

These reports are provided in addition to monthly or quarterly statements provided by the Client's custodian.

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

PFA emphasizes a "team approach" when providing investment advisory services to its clients. If requested by a client, or if PFA believes legal, insurance or accounting services are required and in the best interests of a client's financial plan, PFA will recommend an independent attorney, accountant, insurance agent, etc. As possible, PFA gives the client multiple names, and the client chooses the actual person with whom the client desires to work. PFA does not enter into arrangements with these other professionals for client referrals. However, PFA may have a conflict of interest in making these recommendations because it may receive referrals from or do business with professionals that it has recommended to clients. PFA has been very fortunate to receive many referrals over the years. The referrals come from current clients, attorneys, accountants, employees, personal friends of employees and other similar sources. PFA will refer other professionals to its clients only when PFA believes the services provided by the professional suit the client's needs.

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

In the interest of full disclosure, Robert J. Spindel, Investment Advisory Representative of PFA, maintains one business relationship with a client. Mr. Spindel and this client own the building in which both persons maintains their respective businesses. Mr. Spindel and the client bought the building and settled on the terms of the arrangement before this person became a client. No preferential or special treatment is rendered to this client. PFA manages this client's assets according to the client's needs and objectives, as it does with all clients. This client is an attorney and PFA may refer other clients to him but neither PFA nor this client receive any direct compensation.

## **Item 15. Custody**

PFA is deemed to have custody of certain client funds and securities within the meaning of Rule 206(4)-2 under the Advisers Act based on the fact that (1) certain representatives may serve as Trustee of client trusts; (2) some clients supply access instructions and/or passwords authorizing PFA to have electronic access to view their outside accounts online (3) many of PFA's clients agree to have PFA's fees deducted directly from their



custodial accounts and (4) PFA's move money practices of transferring funds to/from client like account registrations may trigger custody.

All client funds and securities, including funds and securities of trust clients, are maintained in separate accounts for each client by qualified custodians that are not affiliated with PFA. PFA notifies each client of the qualified custodian's name and address and of the manner in which the funds and securities are maintained. Typically the client executes the advisory agreement with PFA.

On a quarterly or more frequent basis, each client will receive account statements, in addition to all confirmations, directly from the custodian or investment company where your securities are held. They will be sent to the email or postal mailing address you provided to your custodian. The client should carefully review those statements and compare them with the statements they receive from PFA. In each case involving a fee deduction, the client's qualified custodian withdraws PFA's fee; PFA does not have the power to access client funds directly.

Federally registered advisors with custody must obtain an annual surprise examination of client assets conducted by an independent registered public accountant. PFA has entered into a written agreement to conduct the surprise exam with the firm of Brown, Smith, Wallace LLC, located at 6 Cityplace Drive, Suite 900, Creve Coeur, MO 63141. The date of the last exam began on October 2, 2017. Each year, this firm will file a report with the SEC attesting to PFA's compliance with the regulatory requirements.

## **Item 16. Investment Discretion**

PFA provides investment advice on a non-discretionary and a discretionary basis.

In such **discretionary clients**, Client agrees to establish an account with an independent, qualified custodian (the "Custodian") and to deposit cash and/or securities to be managed by Advisor into the account (the "Portfolio"). After notification by the Custodian that the Portfolio has been funded, Advisor will assist in developing Client's investment strategy. Advisor will not be responsible for changes in market value of the Portfolio prior to the time that Advisor commences management of the Portfolio. After Client has approved the investment strategy, Advisor shall commence managing the Portfolio and shall have exclusive authority on a fully discretionary basis to buy, sell, and otherwise trade in stocks, bonds, open-end and closed-end mutual funds, exchange-traded funds, REITs, commodities funds and other securities or assets, and to invest, reinvest, or hold cash, on behalf of the Portfolio.

In such **non-discretionary clients**, PFA will advise you regarding investment transactions and, with your consent, we will implement recommended transactions on your behalf. We shall only be responsible for implementing financial planning advice to the extent that you accept our recommendations and you grant to Advisor a limited power of attorney for trading purposes with respect to your accounts. Client has ultimate responsibility for accepting or rejecting Advisor's recommendations and Advisor has no authority or responsibility for determining which trades will be made (or not made). Advisor will assist Client with establishing custodial account(s) with a broker-dealer or other qualified custodian. Client directs Advisor to execute all Client's portfolio transactions through the custodial broker-dealer unless otherwise directed by Client.

Each client indicates in their Confidential Questionnaire any restrictions or limitations they desire to impose on PFA's investment management services. They are also reminded annually in their Investment Policy Statement to notify PFA if there are any changes to their circumstances or restrictions they wish to impose.

Client recognizes that the value and usefulness of our advice depends upon information provided by you and your participation in determining your investment objectives. Client warrants that the confidential financial information provided to PFA is true, correct and complete. You agree to permit us to consult with, and to provide financial information to, your attorneys, accountants or other advisors to the extent necessary. You also agree to promptly inform us in writing of any changes in your financial situation, investment objectives or investment restrictions and any other factors that may be important in the management of your account. You hereby authorize us to provide personal financial information to you via e-mail, or in conjunction with PFA's Secure Client Portal. If you and your spouse are parties to this Agreement, you each acknowledge and agree that it is our policy to share information received from one spouse with the other spouse; and you further agree that our communications to one spouse shall be deemed effectively communicated to the other spouse.

## **Item 17. Voting Client Securities**

It is currently PFA's policy not to exercise proxy voting authority over client securities. PFA does not have authority to vote proxies for its clients on any matters regardless of whether PFA's investment authority is discretionary or non-discretionary. Each client retains sole and absolute authority and responsibility to vote proxies with respect to investments owned by the client.

In cases where James T. Reding is the investment advisory representative and is also serving as Trustee of client trusts, the Client signing the advisory agreement on the account has the responsibility and holds sole proxy voting authority.

Clients will receive their proxies or other solicitations directly from their custodian. Clients are free to contact us about a particular solicitation and our office will do our best to help them.

## **Item 18. Financial Information**

PFA does not believe there are any financial conditions that are reasonably likely to impair our ability to meet contractual commitments to clients. PFA has never been the subject of any bankruptcy filing.

## **Miscellaneous**

### **Anti-Money Laundering**

Although it is not a requirement at this time, to help the government fight the funding of terrorism and money laundering activities, we have implemented an Anti-Money Laundering Policy, setting forth procedures to detect and potentially report suspicious activity. We will obtain, verify, and record information that identifies each person who opens an account. When you open an account, we will ask for your name, address, date of birth and other information that will allow us to identify you. We will also ask to see your driver's license or other identifying documents. PFA will update and expand its procedures as regulations are adopted by the SEC.

### **Business Continuity Plan**

PFA has developed a Business Continuity Plan (BCP) on how we will respond to events that significantly disrupts our business. It is reasonably designed to allow the firm to continue serving clients and provide them with access to their funds and securities in the event of a Significant Business Disruption (SBD).

Our plan anticipates two kinds of SBDs, internal and external. Internal SBDs affect only our firm's ability to communicate and do business, such as a fire in our building. External SBDs prevent the operation of the securities markets or a number of firms, such as a terrorist attack, a city flood, or a wide-scale, regional disruption.

In the event of a SBD, if necessary we will move our staff from our affected office to a remote location where we will obtain access to our cloud based backup server. Our firm will do everything possible to post updates on our website, or main telephone number, and make every attempt to email each client. For those clients that do not have computer access, we will make every attempt to call them directly or use regular mail to keep them informed.

If the SBD prevents you from reaching our office, you may contact our firm's emergency contact persons:

**JAMES T. REDING, Principal**

phone number: (314) 805-9346

email address: jredingpfa@gmail.com

PFA can access client account information and trading capabilities securely on-line via the internet. Through the custodian website, we can perform day to day activities, such as check requests, withdrawals, trading, and even retrieve historical monthly account statements and confirmations.

Our clients also have the ability to contact their custodian directly to process limited trade related transactions and cash disbursements:

**Schwab Advisor Services**

Heartland Team

1945 Northwestern Drive

El Paso, TX 79912

phone number: (800) 515-2157

**TD Ameritrade Institutional**

Midwest Team

5010 Wateridge Vista Drive

San Diego, CA 92121

phone number: (800) 669-3900

However, the ability to trade securities may be impacted by market events outside PFA's control, such as when the market closed following the September 11 tragedy.

In addition, James T. Reding and Ryan E. Powers have executed an Internal Business Continuity Plan indicating that Ryan E. Powers would provide for continuity of service to PFA clients in the event of James T. Reding's untimely death or disability.