

*Sather Financial Group, Inc.*  
*Private Wealth Management*

---

Date: March 6, 2018

**Sather Financial Group, Inc.**

The goal of this overview is to provide information about the experience, qualifications, and business practices of Sather Financial Group, Inc. If you have questions about this information, or anything else, please don't hesitate to contact us at 361-570-1800 or stop by our office at 120 E. Constitution, Victoria, Texas 77901. This overview has not been approved or verified by the United States Securities & Exchange Commission or any state securities authority.

Our Brochure may be requested, at any time, by contacting David Sather, Chief Compliance Officer at (361) 570-1800 or Dave@SatherFinancial.com. Our Brochure (Form ADV) is also available on our website at [www.SatherFinancial.com](http://www.SatherFinancial.com), free of charge. The SEC's website also provides information about any persons affiliated with Sather Financial Group Inc. who are registered, or are required to be registered, as investment adviser representatives of Sather Financial Group Inc.

Sather Financial Group Inc. is a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training; it merely shows the ability to fill out a form.

In addition to our website ([www.SatherFinancial.com](http://www.SatherFinancial.com)), you can find information about our firm and our staff at [www.AdviserInfo.sec.gov](http://www.AdviserInfo.sec.gov).

## Material Changes

This Brochure, dated March 6, 2018, replaces the version dated March 2, 2017. Our last annual amendment was filed on March, 2 2017. We will provide an updated Brochure, as required, based on changes or new information, at any time, without charge.

The following are the key updates since our last annual amendment:

***4C. Additionally, client-directed trade requests must be made via a phone call to Sather Financial with a follow up of request in writing. Sather Financial Group will attempt to trade the requested security on a best efforts basis. (Added January 2018)***

***15. Client custodians may request additional forms or verification of identity to transact wire transfer requests or other similar transactions. This is done to comply with internal policies or with state or federal regulations and to protect clients from theft or fraud. (Added January 2018)***

## **Table of Contents**

1. Cover Page
2. Material Changes
3. Table of Contents
4. Advisory Business
  - Firm Overview
  - A. Our Approach
    - Warren Buffett & The Value Investors
    - Ethics
  - B. Functioning As A Fiduciary
  - C. Assessing Investment Needs
  - D. Team Approach
    - Dave Sather CFP, President
    - Warren Udd CFP, Vice President
    - Cyndee Miller
    - Tammy Kimbrough RP
    - Jon Zahradka CFP
    - Nate Raschke RP
    - Jacob Thomas RP
  - E. Designations
5. Fees & Compensation
  - Fee Only
  - Other Fees and Expenses
  - Fee Payment
6. Performance Fees and Consulting/Financial Planning Services
7. Types of Clients
8. Methods of Analysis, Investment Strategies and Risk of Loss
  - Research and Investment Decisions
  - How Do We Think About Risk in a Portfolio?
9. Disciplinary History and Philosophy
10. Other Financial Industry Activities and Affiliations
11. Code of Ethics
  - Summary
  - Full Code of Ethics available upon request
  - Sather Financial personnel owning/trading in client owned securities
  - Conflicts of Interest
12. Brokerage Practices
  - Brokerage firm considerations
13. Account Reviews
14. Client Referrals and Other Compensation
15. Custody
  - Assets held by third party
  - Statements and confirms sent directly by custodian
16. Investment Discretion
17. Voting of Client Securities
18. Financial Information
19. Privacy Policy

## 4. Advisory Business

### Firm Overview

The Sather Financial Group, Inc. was founded by its owner, Dave Sather, in 1999 as a *fee-only investment management and financial planning and consulting firm*. We currently manage approximately \$589 million in negotiable securities for our clients as of December 31, 2017.

Although investment management is often the main attraction that brings clients to our firm, we have recognized that people who have significant assets also have a variety of financial planning needs. As such, our goal is to offer a more holistic approach to asset management.

### A. Our Approach

Our investment approach has been crafted over the past twenty-five years by utilizing the strategies and philosophies that have made Warren Buffett and other well-known “value investors” successful. There are two reasons for this approach. First, Buffett has a well-documented track record for success in knowing how to think about business and valuing assets. Secondly, Buffett sets a very high bar for ethical behavior. *Without a strong conviction about ethical behavior there is no reason for our firm to exist.*

### B. Functioning As A Fiduciary

In offering services, *we serve as a fiduciary*. As such, we are *legally obligated to do what is in our clients’ best interest*—and not just sell them a product. Although this brings with it tremendous responsibility, we welcome this as it clearly dictates what the goal is. The “fee-only” approach makes the most sense to us as it seems to reduce conflicts of interest and more closely aligns our goals with those of the clients.

### C. Assessing Investment Needs

Given the diversity of our clients’ needs our investment management strategies are broad as they may require a portfolio to generate high income or cash flow while others may be fully devoted to long term growth. The most important thing in assessing asset structure is always the needs of a particular client. We rely heavily on you, the client, to provide us with a host of information and documents so we can thoroughly understand the details of your financial situation. No assessment will ever be fully comprehensive.

In contrast, *brokers, in general, are not required to act as a fiduciary*, but rather only make decisions on behalf of clients based on a “suitability” standard. This is a lesser standard than a fiduciary standard that might allow decisions that may technically be “suitable” but still not in the best interest of the client.

Much of the structure of a client portfolio will be dictated by:

- the amount of assets to invest
- the amount of cash flow (dividends, interest, etc.) a client may need
- the length of time the client can leave the funds alone
- anticipated client additions to or withdrawals from their assets over time
- the client’s tolerance for short, intermediate and longer term volatility

In assessing the needs of our clients, we acknowledge we are all unique and therefore require individual attention. However, there are many similarities among our clients and their assets. For instance, if we determine a given security offers tremendous value, it is quite likely it will end up in many client portfolios.

However, due to the uniqueness of our clients, it does not mean that a given security will be in all portfolios or in the same amounts or percentages.

Occasionally, clients will request that certain securities not be purchased for their accounts while other clients may direct their own purchases. This is fine with us, as it is the client's money. However, if the client restricts a security or directs their own trades it is quite likely that we will give our opinions as to the wisdom of the client's decision. Additionally, if a client restricts certain securities or places their own trades their performance will obviously be different than other clients. As such, we do not guarantee that we will be able to adequately follow or effectively manage securities added through client-directed trades. ***Additionally, client-directed trade requests must be made via a phone call to Sather Financial with a follow up of request in writing. Sather Financial Group will attempt to trade the requested security on a best efforts basis. (Added January 2018)***

#### **D. Team Approach**

Unlike most brokerage operations, there is not one person assigned to the management of our clients' assets or needs. Instead, we all work on every account and relationship. This gives us the ability to double check each other's work and, if one of us is out of the office, the service to that client does not diminish. Additionally, if one of us is dead or incapacitated, there is continuity of the client's asset management.

- **Dave Sather**

Dave Sather is an Accredited Fiduciary Investment Manager™, a CERTIFIED FINANCIAL PLANNER™ and President of the Sather Financial Group, Inc.

Dave was raised in El Paso, Texas received his B.A. in Business Management from Texas Lutheran University and received his M.B.A. from Texas A&M University. Additionally, he has completed The College for Financial Planning's CFP Professional Education Program and the Cannon Financial Institute's Trust Investment School. Furthermore, he holds the Group 1 Life & Health Insurance License and FINRA Series 65 license. He has spent more than 25 years in the financial analysis, investment, and banking industries.

As team leader, he is responsible for coordinating portfolio management and financial and strategy planning of a client's life. This strategic planning includes traditional fee-only investment management, as well as estate, retirement, taxation, and risk management planning on an as-requested basis.

In addition to his work as a CERTIFIED FINANCIAL PLANNER™, Dave teaches an internship on critical thinking, financial statement analysis, and portfolio management at Texas Lutheran University.

In recognition of his work, the Board of Regents at Texas Lutheran recognized Dave with the Distinguished Service Award. Dave serves on the Board of Regents, the Investment Committee and the Business Department's Executive Advisory Council at Texas Lutheran University.

Dave is a Director of the Business Bank of Texas N.A. Dave is a member of the Victoria Estate Planning Council and is the past president and treasurer of First English Lutheran Church. He also serves as an ex-officio member of the Crosstrails Outdoor Ministry Endowment Board, the Southwestern Synod of the Evangelical Lutheran Church of America Investment Committee, and the Brownson Home. Dave also serves as trustee of a personal trust outside of Sather Financial Group.

In his spare time, Dave writes a regular financial planning column entitled "Money Matters" for the Victoria Advocate and the Seguin Gazette.

He and his wife, Carol, live in Victoria.

- **Warren Udd**

Warren is a CERTIFIED FINANCIAL PLANNER™ and Vice-President and Director of the Sather Financial Group, Inc. Warren is part of our research and portfolio management and financial planning team. Additionally, he is in charge of trading, operations, and technology systems. He has been with Sather Financial since 2001.

Warren is the second oldest of four children, all of whom were raised in Mutare, Zimbabwe. Warren and his family were missionaries in Mutare.

After leaving Zimbabwe, Warren earned his Bachelor of Science degree in Business Administration at Southern Nazarene University in Bethany, Oklahoma. While in Oklahoma, he met Kristina Harden. Today, Warren and Kristina are married and have two daughters, Sara and Katie.

Warren has completed the College for Financial Planning Professional Education Program and holds the CERTIFIED FINANCIAL PLANNER™ designation as well as the Group 1 Life & Health Insurance License. Outside of Sather Financial, Warren participates in cattle ranching. He is also a member of the Victoria Area Estate Planning Council and is active at Northside Baptist Church.

- **Cyndee Miller**

Cyndee Miller is the office manager for the Sather Financial Group, Inc. As such, she is the heart of initial client communications and routing of operational needs for our clients. She has been with Sather Financial since 2000.

Cyndee graduated from Calallen High School in Corpus Christi, Texas.

Cyndee brings more than twenty years of experience to Sather Financial Group, Inc. from the banking, investment, and insurance industries.

She has one daughter, Hailey.

- **Tammy Kimbrough**

Tammy has been with Sather Financial since 2009, but brings tremendous industry experience to us.

Tammy graduated from Belton High School in Belton, Texas. She has held the FINRA Series 7, Series 63, Series 66 and Series 31 licenses. Tammy has also earned her Registered Para-Planner designation through the College for Financial Planning.

Tammy brings more than twenty years of experience working with a variety of major investment firms as well as local investment advisors.

She and husband Clint have three children, Autumn, Morgan, and Garrett.

- **Jon Zahradka**

Jon joined Sather Financial full-time in January of 2011 after interning for the firm for a year and a half. Jon graduated from Samuel Clemens High School in Schertz, Texas and earned both a BBA and a BS in Accounting from Texas Lutheran University.

Furthermore, Jon has earned the FINRA Series 65 license, the Registered Para-Planner designation through the College for Financial Planning, the CERTIFIED FINANCIAL PLANNER™ designation and the Group 1 Life & Health Insurance License. Jon coordinates our research efforts and assists with trading duties.

Outside of Sather Financial, Jon is on the San Antonio Financial Planning Association board of directors, President of the Seguin Kiwanis Club, and Finance Committee member of the Seguin Chamber of Commerce. Additionally, he is a member of the Buffalo Trading Investment Club.

Jon and his wife Kayla live in Schertz with their son, Stryder.

- **Nate Raschke**

Nate joined Sather Financial full-time in June of 2013 after interning for the firm for two years. Nate graduated from Cedar Park High School in Austin, Texas and earned degrees in Marketing and Finance from Texas Lutheran University. Nate holds the FINRA Series 65 license and is a Registered Para-Planner.

His primary role is as a financial analyst.

In his time away from Sather Financial, Nate is a council member and the treasurer for Spirit of Joy Lutheran Church, as well as a member of the board of directors for both the Rotary Club of Seguin and the Seguin Chamber of Commerce. Nate and his wife, Brandi, live in Seguin.

- **Jacob Thomas**

Jacob joined Sather Financial in January of 2014 and is a financial analyst and Compliance Officer for the Sather Financial Group, Inc. He was raised in Kentucky and received degrees in Accounting and Spanish from the University of Kentucky. He also holds a law degree from Northern Kentucky University.

Jacob holds the FINRA Series 65 license and is a Registered Para-Planner. Outside of Sather Financial, Jacob serves on the Board of Directors of the Victoria Chamber of Commerce, as well as in various volunteer capacities for his church.

Jacob lives in Victoria, Texas with wife, Evelyn, and two children.

## **E. Designations**

The “designation game” has reached prolific heights. Many in the financial industry know that clients look to designations as a way to identify competency and value. Unfortunately, many licenses and designations are less about skill, competency, or experience, but instead are truly designed just to sell a product.

Our approach has been quite different. Warren, Dave and Jon have the CERTIFIED FINANCIAL PLANNER™ designation. In our opinion, this designation indicates a deeper level of knowledge and experience—and is not just a clever ploy to sell a product.

The CFP® designation is considered the gold standard in the financial services industry—and with good reason. To earn this distinction an individual must pass five 4-hour long exams in insurance, investments, taxation, retirement planning, estate planning and a capstone course. Once all five of these have been successfully completed a candidate is qualified to take a six-hour comprehensive exam.

Once the comprehensive exam is successfully passed, a candidate must still pass an ethics background check and have three years of industry experience.

For these reasons, we think this designation truly provides the skill set to help our clients, as opposed to just selling a product.

However, we don’t think anyone should take our word for what makes a meaningful designation. Instead, all people should ask the following:

1. What designations do you hold?
2. Who is the governing body for these designations?
3. How many exams did you have to take to obtain these designations?
4. Were these exams “self-administered” or proctored by a disinterested third party?
5. What must you do to maintain your designations?
  - a. Ethics
  - b. Continuing Education
  - c. Legal background check
6. How does your particular designation help a person specifically?

## 5. Fees & Compensation

Sather Financial Group earns its compensation by providing investment advisory and financial planning services. Fees are earned for a percentage of assets under management. Investment management services fees are as follows:

<u>Assets Under Management</u>	<u>Annual Fee</u>
\$0 - \$1,000,000	1.00%
\$1,000,001 - \$3,000,000	0.80%
\$3,000,001 - \$5,000,000	0.60%
\$5,000,000 +	0.40%

This is a tiered fee schedule such that an account of \$1 million is at 1.00% or \$10,000 per year. The first \$1 million will always be charged 1%. A \$3 million account would be: (\$1 million x 1%) + (\$2 million x .8%) or \$26,000 total. An annual fee of \$26,000 divided by \$3 million = .8667% per year on average. A \$5 million account will have an average fee of .76%.

A client who hires Sather Financial Group for investment management services may also receive, on an as-requested basis, financial planning services as part of a broader wealth management program. The minimum account size for investment management services is generally \$1 million. Depending upon the size of the relationship, fees may be negotiable.

Obviously, Sather Financial Group, Inc. does not work for free. As such, every client or potential client, needs to evaluate the value proposition provided by our services. Any person moving assets to Sather Financial Group, Inc. may incur more in fees than if they chose other options. This is true whether the assets being transferred in are from an IRA, 401(k), taxable account, or any other account. However, this allows us to build a customized portfolio for that client and also provides a variety of financial planning and strategy services, additional to simply managing the assets. If a person moves assets to Sather Financial for management, the fee they will incur may be higher or lower than other services or by simply managing the assets themselves. Although fees are a very important aspect, all clients must determine if the overall package of services offers a reasonable opportunity to meet their goals.

Inherently, a firm that charges a fee based on assets under management has an incentive to increase assets under management. Sather Financial recognizes there is a potential conflict with any decision that could decrease assets under management. While it is not a perfect system, we feel it is the best way to align our interests with our clients’. Furthermore, we are still required as fiduciaries to make decisions in the best interest of our clients.

- **Other Fees and Expenses**



On rare occasions, we may offer financial planning services on an hourly basis to people who do not have an asset management relationship with Sather Financial. The typical fee for services of this nature is \$350 per hour. We prefer not to do this simply because we have no control over how the given advice is ultimately implemented, if at all.

In general, we don't charge an hourly fee to our clients that have an on-going asset management relationship with us.

In addition to the management fee for services, clients are also responsible for, but not limited to, trading costs, commissions, brokerage fees, and mutual fund expenses. It is important that our clients understand and see these fees. For this reason, they are separate from any fee received by Sather Financial. Since these fees lower the total assets under management, it is in both Sather Financials' best interest, as well as the clients', to keep these costs as low as reasonably possible.

Although we have positive relationships with the institutional arms of Charles Schwab, TD Ameritrade, and Interactive Brokers (the brokerage firms), clients are free to execute trades through any brokerage firm of their choosing. Again, our goal is to make the relationship as efficient as possible for our clients. However, if a client directs trades or custody of securities through a different firm, trade execution and pricing may be more expensive, less cohesive or less advantageous.

- **Fee Payment**

Generally, we bill our clients for services, on a monthly basis, in arrears. In general, our clients are notified of what their assets under management are, as of the last trading day of the month. Based upon that figure, and our fee schedule, we send our clients a statement that shows the fee calculation. Generally, on the 10<sup>th</sup> day of the next month we submit a fee payment request to the brokerage custodian to be paid. The custodian will then deduct the fee from the client account(s) for payment to Sather Financial.

On occasion, there may be slight discrepancies between how end of the month values are represented. Often, this will occur when holding foreign securities that may have different closing prices than those reported by Charles Schwab, TD Ameritrade or other brokers (IE: The 4<sup>th</sup> of July, or other US stock market holiday falls on the last business day of the month, but the foreign markets are still open).

Other variances can come from foreign currency translations. Our experience has been that each brokerage house has different policies and fees associated with foreign dividends and currency.

In auditing our accounts, we have seen this variation cause a security to be priced up to \$.05 per share difference on one pricing service compared with another (ie: Schwab vs. TD Ameritrade or Interactive Brokers or a third-party pricing service such as Dial-Data).

Although we think these pricing anomalies are insignificant, we continue to monitor them to ensure clients are knowledgeable of the facts and treated fairly. Furthermore, if a client sees a difference they consider to be "more than insignificant" we encourage them to bring it to our attention.

## 6. Performance Fees and Consulting/Financial Planning Services

We do not use performance fees with any client accounts. Our experience is that the typical “performance-based pricing” encourages greater risk taking than most clients are able to tolerate.

### Financial Planning/Consulting Services

In addition, on an as requested basis, we will offer planning input on topics such as:

- retirement (IRAs, 401(k)s, 403(b)s, profit sharing plans, projections, funding, distributions, etc.)
- estate (wills, powers of attorney, powers of health care, trusts, family limited partnerships)
- taxes (tax consequences associated with different strategies and accounts)
- risk management (insurance relative to home, health, life, disability, auto, umbrella)
- other major assets (real estate, businesses, vehicles)

## 7. Types of Clients

Our clients do not fit any one profile. We offer broad ranging wealth management services to clients who range from newborns to retirees as well as corporations, retirement plans and foundations. Although our stated minimum account is \$1 million, our average family relationship is more than \$1.7 million.

## 8. Methods of Analysis, Investment Strategies and Risk

- Almost without fail, almost all of our clients have shorter term “cash flow” needs while needing to provide for long-term growth. If we are not successful in marrying the two strategies, we will not have enough cash for operations to wait for the long-term growth ideas to pay off.
- If clients have short term needs, they need to be very conservative with their funds. It is generally foolish to risk a 10% or 20% loss to try and reach for an extra 0.1% return.
- If clients have long-term needs they need to have a ten-year or longer time-frame. Additionally, if they are looking to hold stock market, or other volatile type assets, they need to be prepared for significant volatility. In any given year, we anticipate that the stock market could be up as much as 50%--or lose as much as 40%. That is a substantial swing in year-to-year performance.
- The core of our philosophy focuses on what we have learned from Warren Buffett. Over the past 40+ years, Buffett’s investment performance has been some of the best in the business. While that is quite impressive, Buffett has managed to do so while maintaining the highest ethical standards. If you are willing to read, learn and be disciplined, there is no reason to cheat. We wish that Wall Street, and the major investment and banking houses, would adopt a bit of Buffett’s ethical standards.
- Although Buffett is well known for his “value style” of investment management, we would modify that moniker. Buffett will look for value anomalies in *any* asset. We attempt to do the same. That might come in the form of a long term holding like Coca-Cola, but it also is just as likely to come from writing put options or engaging in “cash out” arbitrage trades.
- We do not use a “one size fits all” philosophy. Although there are many similarities among our clients, there are enough differences that warrant managing each portfolio with that individual client in mind.
- We prefer to do our own research and due diligence. This leads us to managing securities in an effort to reduce risk and improve credit quality and cash flow.
- We are money managers. We are not “middlemen” or “salesman” of ideas.
- We are not Wall Street based. This affords us the ability to think independently. We do not engage in any investment banking and our operation does not have the traditional conflicts of interest presented by investment banking taking priority over quality investment management.

- Our philosophy focuses on using fundamental analysis to determine:
  - 1) Can we understand the company/investment?
  - 2) Is it predictable?
  - 3) Does the company/investment possess a sustained competitive advantage?
  - 4) Does the company/investment have well above average efficiency returns (return on capital and equity)
  - 5) Does the company/investment have very low reliance upon debt?
  - 6) Can the company/investment be purchased at a discount to its normalized earnings?
- Our philosophy generates many ideas that are boring. Typical long term hold names in our portfolios have been: Johnson & Johnson, Pepsi, Kimberly Clark, Procter & Gamble, Nestlé's, Philip Morris, McDonald's, Clorox, Wal-Mart, Walgreens Boots Alliance, Berkshire Hathaway and Exxon.
- By utilizing "boring" ideas we succeed in providing our clients with a very healthy, and increasing, dividend. Additionally, the cash flow from these dividends allows us to wait out volatile time periods.
- We will use institutional or load waived mutual funds to access certain categories (emerging market, high yield, convertible debt, real estate, etc.). If we use a fund it is done to diversify the portfolio and exploit value anomalies in different markets and asset classes around the world.
- We may hold cash or cash equivalent positions in any percentage for extended periods of time. This is the default investment in the absence of finding acceptable values in equity, fixed income or other securities that meet our investment criteria while considering individual client needs. The only time cash will be limited on an ongoing basis is when a client has given a specific mandate such as all equity, all fixed income or some other variation.
- Warren Buffett, and other successful value investors, will often go long periods of time before making an investment, instead, waiting for the right opportunities. We attempt to achieve the same level of patience and prudence. As such, we would rather pursue opportunities which are in the best interest of our clients and ignore the day to day "noise" of the financial markets.

### **Research and Investment Decisions**

- We have access to a wide variety of research including ValueLine, Zacks, S&P, Morningstar, Goldman Sachs and many others.
- We rely very little on Wall Street's opinion based research due to the tremendous conflicts of interest. We have access to, and utilize, a variety of databases that provide broad historical financial data for more than 5,000 companies. We use these databases to analyze and sort based upon criteria that are similar to those utilized by Warren Buffett.
- We rely on fundamental analysis to make our decisions.
- We perform most research in-house.
- We research a multitude of ideas individually looking for investments that may fit our parameters. This may be as informal as reading an article, while it also can be as formal as running proprietary sorts of our databases.
- Once an idea shows merit, it is discussed in a group setting where we try to tear each other's ideas down, determine why they won't work and see if we can come up with a set of circumstances under which we can "kill an investment". Once it is determined that we cannot, in all likelihood, "kill it" we start determining the pricing structure that we are willing to pay for a given investment.
- While this may sound overwhelming, a cursory overview of most companies allows us to quickly determine that most do not fit our parameters.
- We run similar quantitative sorts on broader investment categories also (ie: non-hedged foreign bond funds, convertible bonds, preferred stock, utilities, real estate investment trusts etc). When we find that there is an opportunity to add value to a portfolio we will find appropriate candidates to discuss.
- These broader categories will be accessed via funds. Once an idea is identified, we then sort for appropriate managers, track record, internal fees, litigation issues, ability to perform, etc.

- **How do we think about risk in a portfolio?**

- 1) Typically, the investment community refers to “risk” as a one size fits all term. When they do they are **usually referencing volatility** of a specific asset or class of assets. However, that is a gross oversimplification. Depending upon how you think about the matter, there are at least ten commonly identified types of risk. As such, the word “risk” should always be preceded with an adjective describing the type of risk we are addressing.
- 2) For instance, **default, or business, risk** comes when one investment stumbles (think Enron or General Motors). Usually, diversification with 20 to 30 companies alleviates the vast majority of this type of risk. **Market risk** comes merely from being exposed to a broad class of assets—such as the stock market. Recall how correlated the world’s financial markets were in 2009. Even if you held very high quality stocks in 2009, they still fell significantly. These two types of risk are the ones most of us are referring to when we talk about “risk”. However, they are just the tip of the iceberg.
- 3) Without **leverage risk**, the downturn in 2009 would not have been nearly as serious. Although borrowing money can aid us in making investments (a house is a perfect example), there are limits. When we borrow too much (whether personal, corporate or governmental) we incur risk that an unexpected event may cause our cash flow to dry up—leaving us with no ability to service the debt. As such, leverage can quickly become a house of cards that comes tumbling down.
- 4) A thoughtful investor should also consider **inflation risk** and **interest rate risk**. **Inflation risk (or purchasing power risk)** occurs when assets fail to keep pace with increases in the cost of goods and services. Over the past 40 years, after inflation the stock market has produced returns of more than 6% while the bond market has produced returns of *negative* 2.3%. With record-low interest rates, it is not hard to realize that net of taxes and inflation, fixed income investments may seem safe—but actually carry significant risk. Since property taxes, food, health care and energy are all rising rapidly, this type of risk is hitting virtually all Americans.
- 5) With the ten-year Treasury bond paying a modest 2.5% interest, many investors in this type of asset face **interest rate risk**. Assume you buy a ten-year treasury and one year later interest rates have increased to 6%. Obviously, your 2.5% is inferior to a 6% yield. If you go to sell your bond you will sell it at a loss to entice someone to buy it when compared to other options. Interest rate risk occurs when rates go up making existing fixed income assets inferior in comparison.
- 6) For Texans, land is a love affair. However, unlike 100 shares of Coca Cola stock, there is not a constant supply of willing people wanting to buy your land every day. As such, when we most need to produce cash, **liquidity risk**—from land or any other non-publicly traded assets—rears its ugly head.
- 7) Although this discussion exemplifies a few common types of risk, a smart investor will also evaluate the impact of **political, currency, and credit risks**, too.

Obviously, risk is not a one size fits all term. **Furthermore, you cannot avoid risk—but rather a smart investor must be skilled at “managing” risk.** Given this, the more knowledgeable investors are, the better equipped they will be to deal with the variety of risks facing all of their assets.

## **9. Disciplinary History and Philosophy**

**Neither our firm nor any member of our staff currently has, or has ever had, any complaints or other legal or disciplinary events.**

We aspire to the same ethical standards as Warren Buffett. Buffett has a couple of well-stated comments on ethics. First, he says you should not do anything you would not want printed on the front page of the newspaper. Secondly, he states that it takes a lifetime to build a reputation and minutes to destroy it.

Given Buffett's philosophy on business and ethics, we take a hard stand on making sure our clients' needs are put first.

Since the beginning of our firm, no one individual, or the firm as a whole, has ever had a legal or disciplinary event.

Although we strive to produce competent financial services, we are most proud of putting our ethical standards at the highest levels.

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

Dave Sather is a director of Business Bank of Texas. No member of Sather Financial participates in other financial industry activities.

Sather Financial is not affiliated with any other financial industry firm.

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

In a nutshell, our Code of Ethics states:

- We are fiduciaries and therefore must put the needs of our clients first and foremost.
- We must avoid conflicts of interest where possible.
- We will not disclose private information without client permission or forced to by a court of law.
- We must satisfy standards of personal conduct.
- When trading for ourselves, we must assure that our clients receive the same, or better, pricing.
- Transparency and disclosure must be maintained on securities we own and trade.

We are pleased to provide a full copy of our Code of Ethics to any client, or prospective client, upon request.

We believe in "eating our own cooking." As such, it is quite typical that if we are adding a certain security in a client's portfolio we may buy that same security for our own portfolios. However, if we do trade in the same security on the same day we are required to make sure the client receives the same price as we do, or better pricing.

Obviously, the goal is to not shortchange our clients. We want them to get the better end of the deal.

We attempt to reduce conflicts of interest as much as possible. Although we believe that we are successful in doing so, conflicts may still arise.

For instance, Dave Sather is a director of Business Bank of Texas. In that capacity, he may be required to evaluate and approve loan requests above a certain threshold. It is possible that as a director of Business Bank of Texas that Dave could evaluate the extension of credit to an individual and/or business that is also a client of Sather Financial Group Inc. In a situation like this, Dave Sather abstains from voting on the extension of credit to avoid potential conflicts of interest.

However, it needs to be reinforced that any recommendation by Dave Sather to a Sather Financial Group client to consider Business Bank of Texas as their partner in banking could also be considered a conflict of interest.

## **12. Brokerage Practices**

We use certain brokerages for specific reasons. In general, the main items we consider are:

- Financial strength when assessing their Balance Sheet and Income Statement.
- Consistent commitment to technology and technology security.
- Fraud security.
- Trading efficiency
- Service team experience
- Client Communications

We have one mandate in working with brokers—get our clients the most efficient and effective service reasonably possible. This does not mean necessarily the cheapest, but rather the best overall package of services.

When Sather Financial was established, our clients held their assets with one broker. As Sather Financial has grown, we have seen the need to expand the number of brokers we work with. We now work with at least five brokers (TD Ameritrade, Charles Schwab Company, Interactive Brokers, Wells Fargo and UBS) on a regular basis. All brokers we deal with are separate and unaffiliated from Sather Financial. In the process, we attempt to make every effort possible to hold the brokers at “arm’s length.”

Furthermore, although the main brokers we work with are TD Ameritrade, Charles Schwab and Interactive Brokers, a client may, under certain circumstances, work with a broker or custodian of their own choosing.

By working with more brokers, it is our opinion and experience that we are able to compare them against each other in an effort to make sure our clients have a stronger opportunity for “best execution” of trades. This also allows us to negotiate what we believe are fair commission and transaction rates.

We have a “love/hate” relationship with the brokers. We see them as necessary and valuable business partners—but also as an expense to our clients. Since we work in a “fee-only” manner, if costs to clients go up—we have less money to manage. It is in our best interest and our clients’ best interest to keep fees as low as possible—while maintaining an appropriate level of quality.

If fees were left unchecked, we are confident the brokers would charge our clients significantly more than they are. As such, we must remain vigilant ensuring that our clients get good value and that we satisfy our fiduciary obligation to our clients.

In the process of working with the brokers, some of them offer us a variety of services. The brokers offer services to Sather Financial which may include custody of securities, trade execution, trade allocation software, portfolio management tools, and clearance and settlement of transactions, among others. Obviously, there are varying levels of value associated with these services and not all services are provided by each broker.

Sather Financial utilizes the “Additional Services” programs at TD Ameritrade, Charles Schwab and Interactive Brokers. There are separate agreements governing these services and programs.

These services should benefit Sather Financial in our efforts to manage client assets and are generally not available to individual (“retail”) investors. As such, we see this as a positive and another way in which Sather Financial offers value to our clients.

There is no direct link between Sather Financials participation in these programs and the investment advice given to our clients.

Furthermore, participation in these programs does not factor into our decision making on negotiating commission rates. We still want them to be as low as possible.

Sather Financial, and our clients, benefit from these services regardless of the dollar amount or quantity of trades placed with any of the brokers, although the brokers may provide us more or less services depending on the amount of assets we have with them or the amount of profit they derive from us. Despite this, the benefits provided by the brokers to Sather Financial could potentially present a conflict of interest by creating an incentive to be more profitable to a broker in order to receive more services. However, it does not change our fiduciary duty to clients. Furthermore, Sather Financial chooses brokers that offer the best overall value for clients and will never be based solely on any benefits Sather Financial may receive.

It is also possible that Sather Financial may use a different broker or stop using the services of a particular broker. Also, a broker may decide to stop working with Sather Financial, or the broker may end or change the services it provides. Ultimately, Sather Financial is going to evaluate all relationships relative to the value they provide to our clients.

Our research indicates that Charles Schwab & Co., TD Ameritrade, and Interactive Brokers are skilled at understanding the Registered Investment Advisory world and the needs of our clients. Although many of our clients work with these firms, not all do. While we routinely use Charles Schwab or TD Ameritrade, ultimately, it is up to our clients as to where they satisfy brokerage needs.

If a client chooses to direct trades through other brokerages they understand they may incur additional fees, a lack of coordination, a lack of communication and a lack of efficiency, etc. Therefore, clients choosing this path must realize and expect there to be even greater variability in pricing of securities bought and sold. Best execution under these circumstances is often not attainable.

Often, if we decide to purchase a given security, we may do so for many of our accounts. As such, it is often typical to buy thousands of shares of a given investment which is then allocated for many client accounts. We favor this “block trading” strategy as it often can be more efficient to do so in larger quantities.

Due to the fact that not all client accounts are held at the same custodian/broker there will be variability in the prices of securities bought and sold. Sather Financial Group Inc. works diligently to keep these differences to a minimum.

### **13. Account Reviews**

We try not to put our clients into a “one size fits all” profile. As such, there are different triggers that will cause an account to be reviewed. Some of these triggers are:

- Cash being deposited/withdrawn
- Change in client goals (cash flow in/out, tolerance for volatility, need for growth, etc)
- Change in underlying investments within an account
- A client requested review

We find that the account review process is best handled as a group project. There is not just one of us responsible for reviewing the needs of an account.

## 14. Client Referrals and Other Compensation

The asset management fee is the only fee that Sather Financial receives. We do **NOT** receive any additional fee for investing client assets in one product versus another. As such, we do not receive any commissions, referral fees, 12b-1 fees, ski trips, golf outings, or any other soft-dollar benefit or transactional fee.

## 15. Custody

**We do not have custody of our clients' funds.** We position client assets with firms like Schwab, TD Ameritrade or Interactive Brokers since they allow our clients to see what is happening in their accounts, independent of Sather Financial. We are allowed to buy and sell securities in our client's portfolios. However, we do not control the accounts themselves meaning that, other than monthly billing, we cannot direct funds out of the account—except to the address of record or with written client approval.

***Client custodians may request additional forms or verification of identity to transact wire transfer requests or other similar transactions. This is done to comply with internal policies or with state or federal regulations and to protect clients from theft or fraud. (Added January 2018)***

Having client assets at firms like these serves to add a layer of protection and notify the client independently of what is going on in their account. As such, the brokerage firm will notify the client directly as to what was bought or sold, deposits and withdrawals and end of month summaries. If Bernie Madoff's clients had their assets with a firm like Schwab, TD Ameritrade or Interactive Brokers, the opportunity for theft would have been greatly reduced.

## 16. Investment Discretion

Sather Financial determines the securities to be bought or sold and the amount of the securities to be bought or sold in a client account. We do so without calling our clients ahead of time.

In general, when clients hire us, they are looking to delegate investment decisions. As such, we are generally making all of the investment decisions on a portfolio based upon the client's needs. If we think that a portfolio will benefit from owning Pepsi, for instance, we do not call the client to see if this meets with their approval. We will add it to their portfolio and discuss it after the fact--if the client has questions.

Occasionally, clients will want to place their own trades. We have no problem with this. However, we do feel it is our obligation to play "the devil's advocate" with them if we think they are making a less than wise decision. If clients do place their own trades, we have no ability to ensure best execution. The client is 100% on their own for trade execution, settlement or other aspects associated with self-directed trading.

## 17. Voting Client Securities

Currently, Sather Financial does not vote proxy material for client securities. It is up to each client to vote proxies or other corporate communications as they see fit. If clients have a question, we are happy to answer these on a case by case basis.

## 18. Financial Information

Sather Financial does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance. The firm has no financial condition that is reasonably likely to impair its ability to meet any



contractual requirements relating to any aspect of its business. Sather Financial has never been the subject of a bankruptcy petition.

## **Privacy Policy**

### ***Our Promise to You***

As a client of Sather Financial Group Inc., you share both personal and financial information with us. Your privacy is important to us, and we are dedicated to safeguarding your personal and financial information.

### ***Information Provided by Clients***

In the normal course of doing business, we typically obtain the following non-public personal information about our clients:

- Personal information regarding our clients' identity such as name, address and social security number;
- Information regarding securities transactions effected by us; and
- Client financial information such as net-worth, assets, income, bank account information and account balances.

### ***How We Manage and Protect Your Personal Information***

We do not sell information about current or former clients to third parties, nor is it our practice to disclose such information to third parties unless requested to do so by a client or client representative or, if necessary, in order to process a transaction, service an account or as permitted by law. Additionally, we may share information with outside companies that perform administrative services for us. However, our contractual arrangements with these service providers require them to treat your information as confidential.

In order to protect your personal information, we maintain physical, electronic and procedural safeguards to protect your personal information. Our Privacy Policy restricts the use of client information and requires that it be held in strict confidence.

### ***Client Notifications***

We are required by law to annually provide a notice describing our privacy policy. In addition, we will inform you promptly if there are changes to our policy.

Please do not hesitate to contact us with questions about this notice.

Although this overview covers a wide variety of information, it is obviously not "all-inclusive". As such, if there is anything else you would like to know about our firm, please contact us.

Sincerely,

***Dave Sather***

Dave Sather, President  
CERTIFIED FINANCIAL PLANNER™

Warren Udd, Vice President  
CERTIFIED FINANCIAL PLANNER™