

# Maloon Powers Pitre & Higgins LLC

CALIFORNIA FINANCIAL ADVISORS

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

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3/21/2018

This brochure provides information about the qualifications and business practices of California Financial Advisors. If you have any questions about the contents of this brochure, please contact us at 925-275-1000 or [chume@calfinad.com](mailto:chume@calfinad.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

## **Item 2    Material Changes**

The SEC adopted "Amendments to Form ADV" in July, 2010. This Firm Brochure, dated 3/21/2018 is our new disclosure document prepared according to the SEC's new requirements and rules. .

This Item will be used to provide our clients with a summary of new and/or updated information. We will inform you of the revision(s) based on the nature of the updated information.

We will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

There have been no material changes since our last annual update.

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## **Item 4     Advisory Business**

Maloon, Powers, Pitre & Higgins, LLC is a SEC-registered investment adviser with its principal place of business located in California. Maloon, Powers, Pitre & Higgins, LLC began conducting business in 1998.

Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company).

- Michael Francis Maloon, Principal
- Thomas J. Powers, Principal
- Mark Anthony Pitre, Principal
- Michelle Perry Higgins, Principal

California Financial Advisors offers the following advisory services to our clients:

### **INVESTMENT SUPERVISORY SERVICES ("ISS") INDIVIDUAL PORTFOLIO MANAGEMENT**

Our firm provides continuous advice to a client regarding the investment of client funds based on the individual needs of the client. Through personal discussions, in which goals and objectives based on a client's particular circumstances are established, we create and manage a portfolio specific to that client. During our data-gathering process, we determine the client's individual objectives, time horizons, risk tolerance and liquidity needs. As appropriate, we also review and discuss a client's prior investment history, as well as family composition and background.

We manage these advisory accounts on a discretionary or non-discretionary basis. Account supervision is guided by ongoing interaction with the client, current economic trends, liquidity needs and any relevant tax considerations.

Clients may impose reasonable restrictions on investing in certain securities, types of securities or industry sectors.

Our investment recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. We will primarily emphasize the use of no-load mutual funds, but we may on occasion offer advice on other types of securities including:

- Exchange-listed securities
- Securities traded over-the-counter
- Corporate debt securities (other than commercial paper)
- Commercial paper

- Certificates of deposit
- Municipal securities
- United States government securities

Because some types of investments involve certain additional degrees of risk, they will only be implemented/recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

### **FINANCIAL PLANNING**

We provide financial planning services. Financial planning is a comprehensive evaluation of a client's current and future financial state by using currently known variables to forecast future cash flows, asset values and withdrawal plans. Through the financial planning process, all questions, information and analysis are considered as they impact and are impacted by the entire financial and life situation of the client. Clients purchasing this service receive a written report which provides the client with a detailed financial plan designed to assist the client achieve his or her financial goals and objectives.

In general, the financial plan can address any or all of the following areas:

- **PERSONAL:** We review family records, budgeting, personal liability, estate information and financial goals.
- **TAX & CASH FLOW:** We analyze the client's income tax and spending, planning for past, current and future years; our system allows us to compare how different assumptions with regard to cash flow, investment return, or inflation affect current and future tax liability.
- **INVESTMENTS:** We analyze investment alternatives and their effect on the client's portfolio.
- **INSURANCE:** As part of a financial plan we will address several of the risk management issues that affect the client's financial life including the need for life insurance, disability insurance and long term care coverage. We will also encourage that property and casualty type coverage be reviewed with the appropriate professional.
- **RETIREMENT:** We analyze current strategies and investment plans to help the client achieve his or her retirement goals.
- **DEATH & DISABILITY:** We review the client's cash needs at death, income needs of

surviving dependents, estate planning and disability income.

ESTATE: We assist the client in understanding the many issues surrounding estate transfer including beneficiary designations, estate taxes and probate costs. We will also work with a client's attorney in order to facilitate the preparation of any appropriate legal documents.

We gather required information through in-depth personal interviews. Information gathered includes the client's current financial status, tax status, future goals, return objectives and attitudes towards risk. We carefully review documents supplied by the client, including a questionnaire completed by the client, and prepare a written report. Should the client choose to implement the recommendations contained in the plan, we suggest the client work closely with his/her attorney, accountant, insurance agent and/or stockbroker. Implementation of financial plan recommendations is entirely at the client's discretion.

We also provide general non-securities advice on topics that may include tax and budgetary planning, estate planning and business planning.

Typically the financial plan is presented to the client within sixty (60) days of the contract date, provided that all information needed to prepare the financial plan has been promptly provided.

Financial Planning recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. All recommendations are of a generic nature.

### **PUBLICATION OF PERIODICALS**

California Financial Advisors may, on occasion, publish a newsletter providing general information on various financial topics including, but not limited to, estate and retirement planning, market trends, etc. No specific investment recommendations are provided in this newsletter and the information provided does not purport to meet the objectives or needs of any individual. This newsletter is distributed free of charge to our advisory clients.

### **AMOUNT OF MANAGED ASSETS**

As of 12/31/2017, we were actively managing \$743,627,147 of clients' assets on a discretionary basis plus \$345,339,651 of clients' assets on a non-discretionary basis.

## Item 5 Fees and Compensation

### INVESTMENT SUPERVISORY SERVICES INDIVIDUAL PORTFOLIO MANAGEMENT FEES

The annualized fee for Investment Supervisory Services will be charged as a percentage of assets under management, according to the following schedule:

<u><i>Assets Under Management</i></u>	<u><i>Annual Fee</i></u>
\$100,000 - \$299,999	1.2%
\$300,000 - \$749,999	1.0%
\$750,000 - \$1.5 Million	0.8%
Over \$1.5 Million	0.6%

A minimum of \$100,000 of assets under management is required for this service. This account size may be negotiable under certain circumstances. California Financial Advisors may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee.

***Limited Negotiability of Advisory Fees:*** Although California Financial Advisors has established the aforementioned fee schedule(s), we retain the discretion to negotiate alternative fees on a client-by-client basis. Client facts, circumstances and needs will be considered in determining the fee schedule. These include the complexity of the client, assets to be placed under management, anticipated future additional assets, related accounts, portfolio style, account composition, reports, among other factors. The specific annual fee schedule will be identified in the contract between the adviser and each client.

We may group certain related client accounts for the purposes of achieving the minimum account size requirements and determining the annualized fee.

Discounts, not generally available to our advisory clients, may be offered to family members and friends of associated persons of our firm.

## FINANCIAL PLANNING FEES

California Financial Advisors' Financial Planning fee will be determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client.

Our Financial Planning fees are calculated and charged on an hourly basis, ranging from \$150 to \$400 per hour. Although the length of time it will take to provide a Financial Plan will depend on each client's personal situation, we will provide an estimate for the total hours at the start of the advisory relationship.

***Financial Planning Fee Offset:*** California Financial Advisors reserves the discretion to reduce or waive the hourly fee and/or the minimum fixed fee if a financial planning client chooses to engage us for our Investment Supervisory Services.

## GENERAL INFORMATION

***Termination of the Advisory Relationship:*** A client agreement may be canceled at any time, by either party, for any reason upon receipt of written notice. As disclosed above, certain fees are paid in advance of services provided. Upon termination of any account, any prepaid, unearned fees will be promptly refunded. In calculating a client's reimbursement of fees, we will pro rate the reimbursement according to the number of days remaining in the billing period.

***Mutual Fund Fees:*** All fees paid to California Financial Advisors for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

***Separately Managed Account Fees:*** Clients participating in separately managed account programs may be charged various program fees in addition to the advisory fee charged by our firm. Such fees may include the investment advisory fees of the independent advisers.



***Additional Fees and Expenses:*** In addition to our advisory fees, clients are also responsible for the fees and expenses charged by custodians and imposed by broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer with which an independent investment manager effects transactions for the client's account(s). Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

***Grandfathering of Minimum Account Requirements:*** Pre-existing advisory clients are subject to California Financial Advisors' minimum account requirements and advisory fees in effect at the time the client entered into the advisory relationship. Therefore, our firm's minimum account requirements will differ among clients.

***ERISA Accounts:*** California Financial Advisors is deemed to be a fiduciary to advisory clients that are employee benefit plans pursuant to the Employee Retirement Income and Securities Act ("ERISA"). As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, California Financial Advisors may only charge fees for investment advice about products for which our firm and/or our related persons do not receive any commissions or 12b-1 fees.

***Advisory Fees in General:*** Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees.

***Limited Prepayment of Fees:*** Under no circumstances do we require or solicit payment of fees in excess of \$1,200 more than six months in advance of services rendered.

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

California Financial Advisors does not charge performance-based fees.

## Item 7 Types of Clients

California Financial Advisors provides advisory services to the following types of clients:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Charitable organizations

As previously disclosed in Item 5, our firm has established certain initial minimum account requirements, based on the nature of the service(s) being provided. For a more detailed understanding of those requirements, please review the disclosures provided in each applicable service.

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

### METHODS OF ANALYSIS

We use the following methods of analysis in formulating our investment advice and/or managing client assets:

**Asset Allocation.** Rather than focusing primarily on securities selection, we attempt to identify an appropriate ratio of securities, fixed income and cash suitable to the client's investment goals and risk tolerance.

A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals.

**Mutual Fund and/or ETF Analysis.** We look at the experience and track record of the manager of the mutual fund or ETF in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We also look at the underlying assets in a mutual fund or ETF in an attempt to determine if there is significant overlap in the underlying investments held in another fund(s) in the client's portfolio. We also monitor the funds or ETFs in an attempt to determine if they are continuing to follow their stated investment strategy.

A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is

also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the holding(s) less suitable for the client's portfolio.

***Third-Party Money Manager Analysis.*** While we typically recommend the use of mutual funds, we may on occasion suggest that clients allocate funds to a separately managed account. This type of account may involve the services of an outside money manager who will utilize a given strategy to manage a portfolio of individual securities for a client.

An example of this might be the building of a ladder portfolio of individual municipal bonds as an alternative to using a municipal bond mutual fund. As CFA does not do inhouse analysis of individual securities, we believe the monitoring and selection of individual bonds is best left to an outside manager with more resources and expertise in this area than CFA can provide internally. We will continue to monitor the progress of such accounts and act as the liaison between the client and the outside manager.

A risk of investing with a third-party manager, who has been successful in the past, is that he/she may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a third-party manager's portfolio, there is also a risk that a manager may deviate from the stated investment mandate or strategy of the portfolio, making it a less suitable investment for our clients. Moreover, as we do not control the manager's daily business and compliance operations, we may be unaware of the lack of internal controls necessary to prevent business, regulatory or reputational deficiencies.

***Risks for all forms of analysis.*** Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

## **INVESTMENT STRATEGIES**

We use the following strategy(ies) in managing client accounts, provided that such strategy(ies) are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance and time horizons, among other considerations:

***Long-term purchases.*** We purchase securities with the idea of holding them in the client's account for a year or longer. Typically we employ this strategy when:

- we believe the securities to be currently undervalued, and/or
- we want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantages of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

**Short-term purchases.** Under very limited circumstances, CFA may suggest short-term purchases. When utilizing this strategy, we purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

**Risk of Loss.** Securities investments are not guaranteed and you may lose money on your investments. We ask that you work with us to help us understand your tolerance for risk.

## **Item 9    Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

Our firm and our management personnel have no reportable disciplinary events to disclose.

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

Clients should be aware that the receipt of additional compensation by California Financial Advisors and its management persons or employees creates a conflict of interest that may impair the objectivity of our firm and these individuals when making advisory recommendations. California Financial Advisors endeavors at all times to put the interest of its clients first, as part of our fiduciary duty as a registered investment adviser. We take the following steps to address this conflict:

- we disclose to clients the existence of all material conflicts of interest, including the potential for our firm and our employees to earn compensation from advisory clients in addition to our firm's advisory fees;
- we disclose to clients that they are not obligated to purchase recommended investment products from our employees or affiliated companies;
- we collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
- Some representatives of our firm are licensed insurance agents. As a result of these transactions, they receive normal and customary commissions. A conflict of interest exists as these commissionable securities sales create an incentive to recommend products based on the compensation earner. To mitigate this potential conflict, our firm will act in the client's best interest.
- we require that our employees seek prior approval of any outside employment activity, so that we may ensure that any conflicts of interests in such activities are properly addressed;

- we periodically monitor these outside employment activities to verify that any conflicts of interest continue to be properly addressed by our firm; and
- we educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

We are aware of the special considerations required under Rule 206(4)-3 of the Investment Advisers Act of 1940. As such, all appropriate disclosures shall be made and all applicable Federal and State laws will be observed.

Clients should be aware that the receipt of additional compensation by California Financial Advisors and its management persons or employees creates a conflict of interest that may impair the objectivity of our firm and these individuals when making advisory recommendations. California Financial Advisors endeavors at all times to put the interest of its clients first as part of our fiduciary duty as a registered investment adviser; we take the following steps to address this conflict:

- we disclose to clients the existence of all material conflicts of interest, including the potential for us or our employees to earn compensation from the referral of clients to other registered investment advisers;
- we disclose to the client in a separate disclosure document the compensation we receive in exchange for the client's referral to the selected investment adviser;
- we collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
- we conduct initial and periodic due diligence on the selected investment advisers to establish that the advisers are suitable to recommend to our clients; and
- we educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

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

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

California Financial Advisors and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics, but to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports, as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code also provides for oversight, enforcement and recordkeeping provisions.

California Financial Advisors' Code of Ethics further includes the firm's policy prohibiting the use of non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by email sent to [chume@calfinad.com](mailto:chume@calfinad.com), or by calling us at 925-275-1000.

California Financial Advisors and individuals associated with our firm are prohibited from engaging in principal transactions.

California Financial Advisors and individuals associated with our firm are prohibited from engaging in agency cross transactions.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and/or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client.

As these situations represent actual or potential conflicts of interest to our clients, we have established the following policies and procedures for implementing our firm's Code of Ethics, to ensure our firm complies with its regulatory obligations and provides our clients and potential clients with full and fair disclosure of such conflicts of interest:

1. No principal or employee of our firm may put his or her own interest above the interest of an advisory client.
2. No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is a result of information received as a result of his or her employment unless the information is also available to the investing public.
3. Our firm requires prior approval for any IPO or private placement investments by related persons of the firm.
4. We maintain a list of all reportable securities holdings for our firm and anyone associated with this advisory practice that has access to advisory recommendations ("access person"). These holdings are reviewed on a regular basis by our firm's Chief Compliance Officer or his/her designee.
5. We have established procedures for the maintenance of all required books and records.
6. All clients are fully informed that related persons may receive separate commission compensation when effecting transactions during the implementation process.
7. Clients can decline to implement any advice rendered, except in situations where our firm is granted discretionary authority.
8. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
9. We require delivery and acknowledgement of the Code of Ethics by each supervised person of our firm.
10. We have established policies requiring the reporting of Code of Ethics violations to our senior management.
11. Any individual who violates any of the above restrictions may be subject to termination.

## **Item 12 Brokerage Practices**

### **The Custodian and Brokers We Use**

California Financial Advisors does not maintain custody of your assets, although we may be deemed to have custody of your assets if you give us authority to withdraw assets from your account (See Item 15: Custody, below. Your assets must be maintained in an account at a "qualified custodian", generally a broker-dealer or a bank. We recommend that our clients use Charles Schwab & Co., Inc. or Fidelity Brokerage Services, LLC, FINRA registered broker-dealers, members SIPC, as the qualified custodians. We are independently owned and operated and are not affiliated with either Schwab or Fidelity. Schwab or Fidelity will hold your assets in a brokerage account and buy and sell securities when we/you instruct them to. While we recommend that you use either Schwab or Fidelity as the custodian/broker, you will decide whether to do so and will open your account by entering into an account agreement directly with them. We do not open the account for you, although we may assist you in doing so.

CFA emphasizes the unrestricted right of the client to select and choose any broker or dealer and/or insurance company he or she wishes. However, due to the institutional services available through Charles Schwab and Fidelity, many of CFA's standard services may not be available should a client choose a different Broker-Dealer.

### **How We Select Brokers/Custodians**

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 (generally without a separate fee for custody)
- Capability to execute, clear and settle trades (buy and sell securities for your account)
- Capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, 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 services to us and our other clients
- Availability of other products and services that benefit us, as discussed below (See *Products and Services Available to Us From Schwab and Fidelity*)

## **Your Brokerage and Custody Costs**

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

Schwab's commission rates applicable to our client accounts were negotiated based on the condition that our clients collectively maintain a total of at least \$10,000,000 of their assets in accounts at Schwab. This commitment benefits you, because the overall commission rates you pay are lower than they would be otherwise.

In addition to commissions, Schwab or Fidelity may charge you a flat dollar amount as a "prime broker" or "trade away" fee for each trade that we have executed by a different broker-dealer, but where the securities bought or the funds from the securities sold are deposited (settled into your Schwab or Fidelity account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab or Fidelity execute most trades for your account. We have determined that having Schwab or Fidelity execute most trades is consistent with our duty to seek "best execution" of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see *"How We Select Brokers/Custodians"*).

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

Schwab Advisor Services (formerly called Schwab Institutional is Schwab's business serving independent investment advisory firms like us. They provide us and our clients with access to its institutional brokerage - trading, custody, reporting and related services - many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts, while others help us manage and grow our business. Following is a more detailed description of Schwab's support services:

**Services That Benefit You.** Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of

client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

**Services That May Not Directly Benefit You.** Schwab also makes available to us other products and services that benefit us, but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provides access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping and client reporting

**Services That Generally Benefit Only Us.** Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants and insurance providers

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

These services are of the type described in Section 28(e) of the Securities Exchange Act of 1934 and are designed to augment our own internal research and investment strategy capabilities. This may be done without prior agreement or understanding by the client (and done at our discretion). Research services obtained through the use of soft dollars may be developed by brokers to whom brokerage is directed or by third-parties which are compensated by the broker. California Financial Advisors does not attempt to put a specific dollar value on the services rendered or to allocate the relative costs or benefits of those

services among clients, believing that the research we receive will help us to fulfill our overall duty to our clients. California Financial Advisors may not use each particular research service, however, to service each client. As a result, a client may pay brokerage commissions that are used, in part, to purchase research services that are not used to benefit that specific client. Broker-dealers we select may be paid commissions for effecting transactions for our clients that exceed the amounts other broker-dealers would have charged for effecting these transactions if California Financial Advisors determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers, viewed either in terms of a particular transaction or our overall duty to its ('brokerage') discretionary client accounts.

When California Financial Advisors uses client brokerage commissions to obtain research or brokerage services, we receive a benefit to the extent that California Financial Advisors does not have to produce such products internally or compensate third-parties with our own money for the delivery of such services. Therefore, such use of client brokerage commissions results in a conflict of interest, because we have an incentive to direct client brokerage to those brokers who provide research and services we utilize, even if these brokers do not offer the best price or commission rates for our clients.

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

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services so long as our clients collectively keep a total of at least \$10 million of their assets in accounts at Schwab. (Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody.) The \$10 million minimum may give us an incentive to recommend that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab, as custodian and broker, is in the best interests of our clients. Our selection is primarily supported by scope, quality and price of Schwab's services (see *"How We Select Brokers/Custodian"*) and not Schwab's services that benefit only us. (We have \$927,237,223, as of 12/31/2016, in client assets under management, and we do not believe that recommending our clients to collectively maintain at least \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.)

### **Products and Services Available to Us from Fidelity**

California Financial Advisors has an arrangement with National Financial Services, LLC and Fidelity Brokerage Services, LLC (together with all affiliates, "Fidelity") through which Fidelity provides our firm with their "platform" services. The platform services include, among others, brokerage, custodial, administrative support, record keeping and related services that are intended to support intermediaries like California Financial Advisors in conducting business and in serving the best interests of our clients, but that may also benefit us.

Fidelity charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transactions fees are charged for certain no-load mutual funds,

commissions are charged for individual equity and debt securities transactions). Fidelity enables California Financial Advisors to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Fidelity's commission rates are generally considered discounted from customary retail commission rates. However, the commissions and transaction fees charged by Fidelity may be higher or lower than those charged by other custodians and broker-dealers. As part of the arrangement, Fidelity also makes available to our firm, at no additional charge to us, certain research and brokerage services, including research services obtained by Fidelity directly from independent research companies, as selected by California Financial Advisors (within specified parameters).

As a result of receiving such services for no additional cost, we may have an incentive to continue to use or expand the use of Fidelity's services. We examined this potential conflict of interest when we chose to enter into the relationship with Fidelity and have determined that the relationship is in the best interests of California Financial Advisors' clients and satisfies our client obligations, including our duty to seek best execution. A client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where we determine in good faith that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, while California Financial Advisors will seek competitive rates, to the benefit of all clients, we may not necessarily obtain the lowest possible commission rates for specific client account transactions. Although the investment research products and services that may be obtained by us will generally be used to service all of our clients, a brokerage commission paid by a specific client may be used to pay for research that is not used in managing that specific client's account. California Financial Advisors and Fidelity are not affiliated, and no broker-dealer affiliated with us is involved in the relationship between California Financial Advisors and Fidelity.

As a matter of policy and practice, California Financial Advisors does not generally block client trades and, therefore, we implement client transactions separately for each account. Consequently, certain client trades may be executed before others, at a different price and/or commission rate. Additionally, our clients may not receive volume discounts available to advisers who block client trades.

## **Trade Errors**

Under certain circumstances, an error may occur in the processing of client trades. In this case, California Financial Advisors will work with the custodian to be certain that trades are corrected as originally intended and clients are made whole. California Financial Advisors will take responsibility for losses resulting from errors in its administration, but not credit accounts for market losses or its errors resulting in market gains. Gains and losses are reconciled in a California Financial Advisors custodian account and the net gains and losses are retained by the firm, with net losses paid by CFA to the custodian.

## **Item 13    Review of Accounts**

### **INVESTMENT SUPERVISORY SERVICES INDIVIDUAL PORTFOLIO MANAGEMENT**

**REVIEWS:** While the underlying securities within Individual Portfolio Management Services accounts are continually monitored, these accounts are reviewed on a periodic basis. Accounts are reviewed in the context of each client's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

These accounts are reviewed by the client's advisor.

**REPORTS:** In addition to the monthly statements and confirmations of transactions that clients receive from their custodian, we provide quarterly reports summarizing account performance, balances and holdings.

### **FINANCIAL PLANNING SERVICES**

**REVIEWS:** While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Financial Planning clients unless otherwise contracted for.

**REPORTS:** Financial Planning clients will receive a completed financial plan. Additional reports will not typically be provided unless otherwise contracted for.

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

### **CLIENT REFERRALS**

**California Financial Advisors does not pay for client referrals.**

## **OTHER COMPENSATION**

We receive an economic benefit from Schwab and Fidelity 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 and Fidelity. 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's or Fidelity's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

Our firm and representatives may, from time to time, receive incentive awards (including prizes such as trips or bonuses) for recommending certain types of insurance policies or other investment products that we recommend. These types of awards do not exist for investment advisory business.

While we endeavor at all times to put the interest of our clients first as part of our fiduciary duty, the possibility of receiving incentive awards creates a conflict of interest, and may affect the judgment of these individuals when making recommendations.

### **Item 15 Custody**

Under government regulations, we are deemed to have custody of your assets if you authorized us to instruct Schwab or Fidelity to deduct our advisory fees directly from your account or if you grant us authority to move your money to another account. Schwab/Fidelity maintains actual custody of your assets. You will receive account statements directly from Schwab or Fidelity at least quarterly. They will be sent to the email or postal mailing address you provided to Schwab or Fidelity. You should carefully review those statements promptly when you receive them. We also urge you to compare Schwab's or Fidelity's account statements to the periodic portfolio reports you receive from us.

We previously disclosed in the "Fees and Compensation" section (Item 5) of this Brochure that our firm directly debits advisory fees from client accounts.

As part of this billing process, the client's custodian (Schwab or Fidelity) is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian (Schwab or Fidelity) is required to send to the client a statement showing all transactions within the account during the reporting period.

Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly, if they believe that there may be an error in their statement.

## **Item 16 Investment Discretion**

Clients may hire us to provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client:

- Determine the security to buy or sell; and/or
- Determine the amount of the security to buy or sell

Clients give us discretionary authority when they sign a discretionary agreement with our firm, and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by, once again, providing us with written instructions.

## **Item 17 Voting Client Securities**

We vote proxies for all client accounts; however, you always have the right to vote proxies yourself. You can exercise this right by instructing us in writing to not vote proxies in your account.

We will vote proxies in the best interests of our clients and in accordance with our established policies and procedures. Our firm will retain all proxy voting books and records for the requisite period of time, a record of each vote cast, a copy of any document created by us that was material to making a decision how to vote proxies, and a copy of each written client request for information on how the adviser voted proxies. If our firm has a conflict of interest in voting a particular action, we will abstain from voting on the proxy.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting Carrie Hume, Office Manager, by telephone, email, or in writing. Clients may request, in writing, information on how proxies for his/her shares were voted. If any client requests a copy of our complete proxy policies and procedures or how we voted proxies for his/her account(s), we will promptly provide such information to the client.

We will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

With respect to ERISA accounts, we will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies. To direct us to vote a proxy in a particular manner, clients should contact Carrie Hume, Office Manager, by telephone, email, or in writing.

## **Item 18 Financial Information**

California Financial Advisors has no additional financial circumstances to report.

Under no circumstances do we require or solicit payment of fees, in excess of \$1,200 per client, more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

California Financial Advisors has not been the subject of a bankruptcy petition at any time during the past ten years.