

# **Lehman & DeRafelo Financial Resources, LLC**

**d/b/a**

## **Lehman Financial Resources**

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### **FORM ADV PART 2A BROCHURE**

This brochure provides information about the qualifications and business practices of Lehman & DeRafelo Financial Resources LLC d/b/a Lehman Financial Resources. If you have any questions about the contents of this brochure, contact us at 610-565-2343. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Lehman & DeRafelo Financial Resources LLC d/b/a Lehman Financial Resources is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Lehman & DeRafelo Financial Resources LLC d/b/a Lehman Financial Resources is a registered investment adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

## **Item 2 Summary of Material Changes**

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

We are a newly registered investment adviser; therefore, we have no material changes to report.

### Item 3 Table of Contents

Item 1 Cover Page	Page 1
Item 2 Summary of Material Changes	Page 2
Item 3 Table of Contents	Page 3
Item 4 Advisory Business	Page 4
Item 5 Fees and Compensation	Page 7
Item 6 Performance-Based Fees and Side-By-Side Management	Page 8
Item 7 Types of Clients	Page 8
Item 8 Methods of Analysis, Investment Strategies and Risk of Loss	Page 8
Item 9 Disciplinary Information	Page 13
Item 10 Other Financial Industry Activities and Affiliations	Page 13
Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	Page 14
Item 12 Brokerage Practices	Page 15
Item 13 Review of Accounts	Page 17
Item 14 Client Referrals and Other Compensation	Page 17
Item 15 Custody	Page 17
Item 16 Investment Discretion	Page 18
Item 17 Voting Client Securities	Page 18
Item 18 Financial Information	Page 19
Item 19 Requirements for State-Registered Advisers	Page 19
Item 20 Additional Information	Page 19

## Item 4 Advisory Business

### Description of Services and Fees

Lehman & DeRafelo Financial Resources, LLC d/b/a Lehman Financial Resources is an SEC registered investment adviser based in Media, Pennsylvania. We are organized as a limited liability company under the laws of the Commonwealth of Pennsylvania. We have been providing investment advisory services since February 2018. Richard DeRafelo and Ronald Lehman are the principal owners. Currently, we offer the following investment advisory services, which are personalized to each individual client:

- **Financial Planning and Consulting Services**
- **Wealth Management Services**
- **Investment Supervisory Services**

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

### Financial Planning and Consulting Services

We provide a broad range of comprehensive financial planning and consulting services. Financial planning will typically involve providing a variety of advisory services to clients regarding the management of their financial resources based upon an analysis of their individual needs. If you retain our firm for financial planning services, we will meet with you to gather information about your financial circumstances and objectives. We may also use financial planning software to determine your current financial position and to define and quantify your long-term goals and objectives. Once we specify those long-term objectives (both financial and non-financial), we will develop shorter-term, targeted objectives. We will review and analyze the information you provide to our firm and the data derived from our financial planning software. Based upon all information gathered and analyzed, we will deliver a written plan to you, designed to help you achieve your stated financial goals and objectives.

Financial plans are based on your financial situation at the time we present the plan to you, and on the financial information you provide to our firm. You must promptly notify our firm if your financial situation, goals, objectives, or needs change.

If you engage us for additional investment advisory services, we may offset all or a portion of your fees for those services based upon the amount paid for the financial planning and/or consulting services.

You are under no obligation to act on our financial planning recommendations. Should you choose to act on any of our recommendations, you are not obligated to implement the financial plan through any of our other investment advisory services. Moreover, you may act on our recommendations by placing securities transactions with any brokerage firm.

We charge a fixed fee for financial planning services, which generally ranges between \$500 - \$25,000. The fee is negotiable, at our sole discretion.

Fees are due upon completion of services rendered. We do not require prepayment of fees.

You may terminate the financial planning agreement by providing written notice to our firm. You will incur a pro rata charge for services rendered prior to the termination of the agreement.

## **Wealth Management Services**

We offer discretionary and non-discretionary wealth management services. Wealth management services will include portfolio management services as well as certain of the financial planning/consulting services discussed above.

Our investment advice is tailored to meet our clients' needs and investment objectives. We will meet with you to determine your investment objectives, risk tolerance, and other relevant information (the "suitability information") at the beginning of our advisory relationship. We will use the suitability information we gather to develop a strategy that enables our firm to give you continuous and focused investment advice and/or to make investments on your behalf. As part of our wealth management services, we may customize an investment portfolio for you in accordance with your risk tolerance and investing objectives. We may also invest your assets using a predefined strategy, or we may invest your assets according to one or more model portfolios developed by our firm. Once we construct an investment portfolio for you, or select a model portfolio, we will monitor your portfolio's performance on an ongoing basis, and will rebalance the portfolio as required by changes in market conditions and in your financial circumstances.

If you participate in our discretionary portfolio management services, we require you to grant our firm discretionary authority to manage your account. Discretionary authorization will allow our firm to determine the specific securities, and the amount of securities, to be purchased or sold for your account without your approval prior to each transaction. Discretionary authority is typically granted by the investment advisory agreement you sign with our firm, a limited power of attorney, or trading authorization forms. You may limit our discretionary authority (for example, limiting the types of securities that can be purchased for your account) by providing our firm with your restrictions and guidelines in writing. If you enter into non-discretionary arrangements with our firm, we must obtain your approval prior to executing any transactions on behalf of your account.

If engaged, we will charge an annual fee based upon a percentage of the market value of the assets being managed by us. Our annual fee shall be prorated and charged quarterly, in arrears, based upon the market value of the assets on the last day of the previous quarter. The annual fee shall vary (between 0.20% and 1.00%) depending upon the market value of the assets under management and the type of investment management services to be rendered. In limited circumstances, we may offer a fixed fee in lieu of an asset-based fee for our services. These fees are negotiated with the client and may vary among clients depending on each client's specific circumstances. We may also waive the first quarter's fees for new clients.

We generally impose a minimum annual fee of \$500 as a condition for starting and maintaining an advisory relationship. In our sole discretion, we may negotiate a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, pro bono activities, etc.).

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

You may make additions to and withdrawals from the account at any time, subject to our right to terminate an account. If assets are withdrawn or deposited into an account after the beginning of a quarter that exceed \$25,000 per day, the fee payable with respect to such assets will be prorated and either added or deducted from the next quarterly bill. Clients may withdraw account assets upon notice to us, subject to the usual and customary securities settlement procedures.

If the wealth management agreement is executed at any time other than the first day of a calendar quarter, our fees will apply on a pro rata basis, which means that the advisory fee is payable in proportion to the number of days in the quarter for which you are a client.

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

You may terminate the wealth management agreement upon written notice to our firm. You will incur a pro rata charge for services rendered prior to the termination of the portfolio management agreement, which means you will incur advisory fees only in proportion to the number of days in the quarter for which you are a client.

### **Investment Supervisory Services**

We may also render non-discretionary investment management services to clients relative to: (1) variable life/annuity products that they may own, and/or (2) their individual employer sponsored retirement plans. In so doing, we either direct or recommend the allocation of client assets among the various mutual fund sub-accounts that comprise the variable life/annuity product or the retirement plan. The client assets shall be maintained at either the specific insurance company that issued the variable life/annuity product which is owned by the client, or at the custodian designated by the sponsor of the client's retirement plan.

Clients will be charged a fee for asset management services which is billed quarterly in arrears based on the asset value at the end of the previous quarter. Fees will be assessed pro rata in the event the asset management agreement is executed at any time other than the first day of a calendar quarter. On an annualized basis, our fees for asset management services, subject to negotiation, range between 0.20% to 1.50% of the market value of the assets managed. In limited circumstances, we may offer a fixed fee in lieu of an asset-based fee for our services. These fees are negotiated with the client and may vary among clients depending on each client's specific circumstances.

We will deduct our fee directly from your account through the qualified custodian holding your funds and securities. We will deduct our advisory fee only when you have given our firm written authorization permitting the fees to be paid directly from your account. Further, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements from your account. You should review all statements for accuracy. We will also have access to your account statements. Occasionally, depending upon client situations, we may accept payment for our fees by personal check.

You may terminate the advisory agreement upon written notice to our firm. You will incur a pro rata charge for services rendered prior to the termination of the advisory agreement.

### **General - Advisory Services to Retirement Plans and Plan Participants**

We offer investment advisory services to employee benefit plans ("Plan") and to the participants of such plans ("Participants"). The services are designed to assist plan sponsors in meeting their management and fiduciary obligations to Participants under the Employee Retirement Income Securities Act ("ERISA"). Pursuant to adopted regulations of the U.S. Department of Labor, we are required to provide the Plan's responsible plan fiduciary (the person who has the authority to engage us as an investment adviser to the Plan) with a written statement of the services we provide to the Plan, the compensation we receive for providing those services, and our status (which is described below).

The services we provide to your Plan are investment portfolio management services and are defined in the service agreement that you have signed with us. Our compensation for these services will range from 0.20% to 1.0% of assets under management. Please refer to the service agreement where the advisory fee

you pay our firm for the services provided is specified. We do not reasonably expect to receive any other compensation, direct or indirect, for the services we provide to the Plan or Participants. If we receive any other compensation for such services, we will (i) offset the compensation against our stated fees, and (ii) we will promptly disclose the amount of such compensation, the services rendered for such compensation and the payer of such compensation to you.

### **Status**

In providing services to the Plan and Participants, our status is that of an investment adviser registered under the Investment Advisers Act of 1940 and we are not subject to any disqualifications under Section 411 of ERISA. In performing fiduciary services, we are acting as a discretionary fiduciary of the plan as defined in Section 3(38) under ERISA.

### **Types of Investments**

We intend to primarily allocate our client's investment management assets among mutual funds, exchange traded funds, individual debt and equity securities and/or options as well as the securities components of variable annuities and variable life insurance contracts in accordance with the investment objectives of the client.

Additionally, we may advise you on any type of investment that we deem appropriate based on your stated goals and objectives. We may also provide advice on any type of investment held in your portfolio at the inception of our advisory relationship.

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

### **Assets Under Management**

As of November 15, 2018, we provide continuous management services for \$104,252,000 in client assets on a discretionary basis.

## **Item 5 Fees and Compensation**

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

### **Additional Fees and Expenses**

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

We may trade client accounts on margin. Each client must sign a separate margin agreement **before** margin is extended to that client account. Fees for advice and execution on these securities are based on the total asset value of the account, which includes the value of the securities purchased on margin. While a negative amount may show on a client's statement for the margined



security as the result of a lower net market value, the amount of the fee is based on the absolute market value. This could create a conflict of interest where we may have an incentive to encourage the use of margin to create a higher market value and therefore receive a higher fee. The use of margin may also result in interest charges in addition to all other fees and expenses associated with the security involved.

### **Compensation for the Sale of Other Investment Products**

Persons providing investment advice on behalf of our firm are licensed as independent insurance agents. These persons will earn commission-based compensation for selling insurance products, including insurance products they sell to you. Insurance commissions earned by these persons are separate and in addition to our advisory fees. This practice presents a conflict of interest because persons providing investment advice on behalf of our firm who are insurance agents have an incentive to recommend insurance products to you for the purpose of generating commissions rather than solely based on your needs. However, you are under no obligation, contractually or otherwise, to purchase insurance products through any person affiliated with our firm.

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

We do not accept performance-based fees or participate in side-by-side management. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees. Performance-based fees are fees that are based on a share of capital gains or capital appreciation of a client's account. Our fees are calculated as described in the *Advisory Business* section above, and are not charged on the basis of a share of capital gains upon, or capital appreciation of, the funds in your advisory account.

## **Item 7 Types of Clients**

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

In general, we impose a minimum annual fee of \$500 as a condition for starting and maintaining an advisory relationship. At our discretion, we may waive this minimum fee. For example, we may waive the minimum if you appear to have significant potential for increasing your assets under our management.

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

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

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

- **Charting Analysis** - involves the gathering and processing of price and volume information for a particular security. This price and volume information is analyzed using mathematical equations. The resulting data is then applied to graphing charts, which is used to predict future price movements based on price patterns and trends.
- **Fundamental Analysis** - involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product line, the experience and expertise of the company's management, and the outlook for the company's industry. The resulting data is used to measure the true value of the company's stock compared to the current market value.
- **Technical Analysis** - involves studying past price patterns and trends in the financial markets to predict the direction of both the overall market and specific stocks.



- Cyclical Analysis - a type of technical analysis that involves evaluating recurring price patterns and trends.
- Modern Portfolio Theory (MPT) is a theory of investment which attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully diversifying the proportions of various assets.
- Long Term Purchases - securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.
- Short Term Purchases - securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations.
- Margin Transactions - a securities transaction in which an investor borrows money to purchase a security, in which case the security serves as collateral on the loan.
- Option Writing - a securities transaction that involves selling an option. An option is the right, but not the obligation, to buy or sell a particular security at a specified price before the expiration date of the option. When an investor sells an option, he or she must deliver to the buyer a specified number of shares if the buyer exercises the option. The seller pays the buyer a premium (the market price of the option at a particular time) in exchange for writing the option.

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

Client assets are also advised using credit and cash flow analysis for bond purchases.

Some of the inherent risks of methods of analysis and investment strategies are as follows:

**Charting and Technical Analysis** - The risk of market timing based on technical analysis is that charts may not accurately predict future price movements. Current prices of securities may reflect all information known about the security and day to day changes in market prices of securities may follow random patterns and may not be predictable with any reliable degree of accuracy.

**Fundamental Analysis** - The risk of fundamental analysis is that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.

**Cyclical Analysis** - Economic/business cycles may not be predictable and may have many fluctuations between long term expansions and contractions. The lengths of economic cycles may be difficult to predict with accuracy and therefore the risk of cyclical analysis is the difficulty in predicting economic trends and consequently the changing value of securities that would be affected by these changing trends.

We may use short-term trading (in general, selling securities within 30 days of purchasing the same securities) as an investment strategy when managing your account(s). Short-term trading is not a fundamental part of our overall investment strategy, but we may use this strategy occasionally when we determine that it is suitable given your stated investment objectives and tolerance for risk.

We may use investment strategies that involve buying and selling securities frequently in an effort to capture significant market gains and avoid significant losses during a volatile market. However, frequent trading can negatively affect investment performance, particularly through increased brokerage and other transactional costs and taxes.

## **Tax Considerations**

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

Your custodian will generally default to the FIFO (Highest In, First Out) accounting method for calculating the cost basis of your investments. You are responsible for contacting your tax advisor to determine if this accounting method is the right choice for you. If your tax advisor believes another accounting method is more advantageous, please provide written notice to our firm immediately and we will alert your account custodian of your individually selected accounting method. Please note that decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

## **Risk of Loss**

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

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

As disclosed under the "Advisory Business" section in this brochure, we primarily recommend the following types of securities: mutual funds, exchange traded funds, individual debt and equity securities and/or options as well as the securities components of variable annuities and variable life insurance contracts. You should be advised of the following risks when investing in these types of securities:

There are numerous ways of measuring the risk of equity securities (also known simply as "equities" or "stock"). In very broad terms, the value of a stock depends on the financial health of the company issuing it. However, stock prices can be affected by many other factors including, but not limited to: the class of stock (for example, preferred or common); the health of the market sector of the issuing company; and, the overall health of the economy. In general, larger, more well established companies ("large cap") tend to be safer than smaller start-up companies ("small cap") but the mere size of an issuer is not, by itself, an indicator of the safety of the investment.

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

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

**Margin:** Buying on margin means borrowing money from a broker to purchase stock. Margin trading allows you to buy more stock than you'd be able to normally. An initial investment of at least \$2,000 is required for a margin account, though some brokerages require more. This deposit is known as the minimum margin. Once the account is opened and operational, you can borrow up to 50% of the purchase price of a stock. This portion of the purchase price that you deposit is known as the initial margin. Some brokerages require you to deposit more than 50% of the purchase price. Not all stocks qualify to be bought on margin. When you sell the stock in a margin account, the proceeds go to your broker against the repayment of the loan until it is fully paid. There is also a restriction called the maintenance margin, which is the minimum account balance you must maintain before your broker will force you to deposit more funds or sell stock to pay down your loan. When this happens, it's known as a margin call. If for any reason you do not meet a margin call, the brokerage has the right to sell your securities to increase your account equity until you are above the maintenance margin. Additionally, your broker may not be required to consult you before selling. Under most margin agreements, a firm can sell your securities without waiting for you to meet the margin call and you can't control which stock is sold to cover the margin call. You also have to pay the interest on your loan. The interest charges are applied to your account unless you decide to make payments. Over time, your debt level increases as interest charges accrue against you. As debt increases, the interest charges increase, and so on. Therefore, buying on margin is mainly used for short-term investments. The longer you hold an investment, the greater the return that is needed to break even. In volatile markets, prices can fall very quickly. You can lose more money than you have invested.

**Options:** Options are complex securities that *involve risks and are not suitable for everyone. Option trading can be speculative in nature and carry substantial risk of loss. It is generally recommended that you only invest in options with risk capital.* An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an underlying asset at a specific price on or before a certain date (the "expiration date"). The two types of options are calls and puts: A call gives the holder the right to buy an asset at a certain price within a specific period of time. Calls are similar to having a long position on a stock. Buyers of calls hope that the stock will increase substantially before the option expires. A put gives the holder the right to sell an asset at a certain price within a specific period of time. Puts are very similar to having a short position on a stock. Buyers of puts hope that the price of the stock will fall before the option expires. Selling options is more complicated and can be even riskier.

The option trading risks pertaining to options buyers are:

- Risk of losing your entire investment in a relatively short period of time.
- The risk of losing your entire investment increases if, as expiration nears, the stock is below the strike price of the call (for a call option) or if the stock is higher than the strike price of the put (for a put option).
- European style options which do not have secondary markets on which to sell the options prior to expiration can only realize its value upon expiration.
- Specific exercise provisions of a specific option contract may create risks.
- Regulatory agencies may impose exercise restrictions, which stops you from realizing value.

The option trading risks pertaining to options sellers are:

- Options sold may be exercised at any time before expiration.
- Covered Call traders forgo the right to profit when the underlying stock rises above the strike price of the call options sold and continues to risk a loss due to a decline in the underlying stock.

- Writers of Naked Calls risk unlimited losses if the underlying stock rises.
- Writers of Naked Puts risk losses if the underlying stock drops. Losses on these types of Puts are limited to the underlying stock price reaching zero.
- Writers of naked positions run margin risks if the position goes into significant losses. Such risks may include liquidation by the broker.
- Writers of call options can lose more money than a short seller of that stock on the same rise on that underlying stock. This is an example of how the leverage in options can work against the option trader.
- Writers of Naked Calls are obligated to deliver shares of the underlying stock if those call options are exercised.
- Call options can be exercised outside of market hours such that effective remedy actions cannot be performed by the writer of those options.
- Writers of stock options are obligated under the options that they sold even if a trading market is not available or that they are unable to perform a closing transaction.
- The value of the underlying stock may surge or ditch unexpectedly, leading to automatic exercises.

Other option trading risks are:

- The complexity of some option strategies is a significant risk on its own.
- Option trading exchanges or markets and option contracts themselves are open to changes at all times.
- Options markets have the right to halt the trading of any options, thus preventing investors from realizing value.
- Risk of erroneous reporting of exercise value.
- If an options brokerage firm goes insolvent, investors trading through that firm may be affected.
- Internationally traded options have special risks due to timing across borders.

Risks that are not specific to options trading include: market risk, sector risk and individual stock risk. Option trading risks are closely related to stock risks as stock options are a derivative of stocks.

Where appropriate, we may also recommend that clients invest in alternative investments with different risk-reward profiles than the traditional equity and fixed income asset classes with a portion of their overall asset allocation. We may recommend one or more of the following types of alternative investments.

**Private Placements:** Private placements are companies offering securities in non-public offerings that are not required to comply with the registration requirements of federal securities laws. Due to the lack of securities registration, there is less limited public information regarding the investment than there is for publicly-traded companies. Private placements may provide a higher rate of return than traditional investments; however, there is also a higher risk of loss of capital and liquidity risks. Private placements are only offered to Accredited Investors and/or Qualified Purchasers. Such private placements may invest in gas and convenience stores, collateralized loan obligations, debt/credit instructions, among other types of investments. Investors should review each private placement's offering documents for information on the risks associated with each investment.

**Interval Funds:** Interval funds are closed-end investment companies that periodically offers to repurchase its shares from shareholders as disclosed in the funds' prospectus and annual report. The price that shareholders will receive on a repurchase will be based on the per share NAV determined as of a specified (and disclosed) date. Interval funds are permitted to deduct a redemption fee from the repurchase proceeds, not to exceed 2% of the proceeds. The fee is paid to the fund, and generally is intended to compensate the fund for expenses directly related to the repurchase. Interval funds may charge other fees as well. Interval funds typically invest in riskier types of investments that are thinly traded and can carry expense ratios than average equity mutual funds.

We may recommend interval funds that invest in peer-to-peer loans to individuals and small businesses across the globe, reinsurance risk premium via quota share vehicles alongside reinsurance companies, catastrophe bonds, and investments that seek to capture the difference between implied and realized volatility in the options markets. These funds have quarterly liquidity and are associated with liquidity risk as well as risks associated with the underlying investments. You should review the fund's prospectus for more information.

**Structured Products:** A structured product, also known as a market-linked product, is generally a pre-packaged investment strategy based on derivatives, such as a single security, a basket of securities, options, indices, commodities, debt issuances, and/or foreign currencies, and to a lesser extent, swaps. Structured products are usually issued by investment banks or affiliates thereof. They have a fixed maturity, and have two components: a note and a derivative. The derivative component is often an option. The note provides for periodic interest payments to the investor at a predetermined rate, and the derivative component provides for the payment at maturity. Some products use the derivative component as a put option written by the investor that gives the buyer of the put option the right to sell to the investor the security or securities at a predetermined price. Other products use the derivative component to provide for a call option written by the investor that gives the buyer of the call option the right to buy the security or securities from the investor at a predetermined price. A feature of some structured products is a "principal guarantee" function, which offers protection of principal if held to maturity. However, these products are not always Federal Deposit Insurance Corporation insured; they may only be insured by the issuer, and thus have the potential for loss of principal in the case of a liquidity crisis, or other solvency problems with the issuing company. Investing in structured products involves a number of risks including but not limited to: fluctuations in the price, level or yield of underlying instruments, interest rates, currency values and credit quality; substantial loss of principal; limits on participation in any appreciation of the underlying instrument; limited liquidity; credit risk of the issuer; conflicts of interest; and, other events that are difficult to predict.

**High-Yield Bond:** A high-yield bond is a high paying bond with a lower credit rating than investment-grade corporate bonds, Treasury bonds, and municipal bonds. Although these bonds can pay a higher yield than investment-grade bonds, a higher risk of default and market volatility are associated with high-yield bonds.

**Commercial Mortgage Backed Securities (CMBS):** CMBSs are a type of mortgage-backed security that is secured by mortgages on commercial properties instead of residential real estate. Risks associated with CMBSs include default risk if the underlying borrowers fail to make their principal and interest payments and real estate market risk.

## Item 9 Disciplinary Information

Lehman & DeRafelo Financial Resources, LLC. has been registered and providing investment advisory services since 2018. Neither our firm nor any of our Associated Persons has any reportable disciplinary information.

## Item 10 Other Financial Industry Activities and Affiliations

### Arrangements with Affiliated Entities

We are affiliated with Lehman Financial Services, an accounting firm, through Jeffrey Lehman, an Investment Adviser Representative with our firm.



Lehman Financial Services provides tax preparation services to individuals and business clients. Associated Persons of Lehman & DeRafelo Financial Resources, LLC may assist with accounting and tax services through Lehman Financial Services. If you require accounting services, we may recommend that you use Lehman Financial Services. Our advisory services are separate and distinct from the compensation paid to Lehman Financial Services for their services.

The referral arrangement we have with our affiliated entity presents a conflict of interest because we may have a financial incentive to recommend our affiliates' services. While we believe that compensation charged by our affiliate is competitive, such compensation may be higher than fees charged by other firms providing the same or similar services. You are under no obligation to use our affiliate's services and may obtain comparable services and/or lower fees through other firms.

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

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

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

Clients or prospective clients may obtain a copy of our Code of Ethics by contacting us at the telephone number on the cover page of this brochure.

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

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

### **Cross Transactions**

We may, when we consider the transaction to be in your best interest, instruct brokers to execute transactions where the broker acts as agent for both seller and buyer. In circumstances where the broker executes an agency cross, both the buyer and seller are charged an agency commission for such transaction. We will review all trades executed as a cross transaction for compliance with our best execution policy. We do not directly or indirectly receive commissions or transaction-based compensation from cross trades. We will not execute a cross transaction between a client and a proprietary account, or an account that we have direct control over without pre-clearance from each participating client.

### **Personal Trading Practices**

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

A conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To eliminate this conflict of interest, it is our policy that neither our Associated Persons nor we shall have priority over your account in the purchase or sale of securities.

### **Limited Partnership Investments**

Our firm may invest in some of the same limited partnership funds that we may recommend to our clients and this could present a conflict of interest in that our firm would have a financial incentive to maintain the fiscal health of such limited partnerships. Additionally, Richard DeRafelo serves on the Advisory Committee to limited partnerships which we may recommend to you as an investment or in which our clients are invested. Mr. DeRafelo is not compensated for his time in serving on the Advisory Committee but may receive reimbursement from the limited partnerships for reasonable out-of-pocket expenses incurred in attending Advisory Committee meetings or in connection with actions taken at the request of the limited partnership's General Partner.

## **Item 12 Brokerage Practices**

We routinely recommend the brokerage and custodial services of Fidelity Institutional Brokerage Group and its affiliates (collectively referred to as "Fidelity"), a securities broker-dealer and a member of FINRA and SIPC. If you do not direct our firm to execute transactions through Fidelity, we reserve the right to not accept your account. Not all advisers require their clients to direct brokerage. We may only implement our investment management recommendations after you have arranged for and furnished our firm with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, Fidelity, and any other broker-dealer we recommend, any broker-dealer directed by you, trust companies, banks, etc. (collectively referred to as "Financial Institution(s)"). You may incur certain charges imposed by the Financial Institution(s) and other third parties such as custodial fees, charges imposed directly by a mutual fund or exchange traded fund in the account, which shall be disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Such charges, fees and commissions are exclusive of and in addition to our advisory fee.

Factors that we consider in recommending Fidelity or any other broker-dealer to you include their respective financial strength, reputation, execution, pricing, research, and service. Fidelity enables our firm to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by Fidelity may be higher or lower than those charged by other broker-dealers. The commissions you pay shall comply with our duty to obtain "best execution." However, you 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 among others, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while we will seek competitive rates, we may not necessarily obtain the lowest possible commission rates for client transactions. If you request that we arrange for the execution of securities brokerage transactions for your account, we will direct such transactions through broker-dealers that we reasonably believe will provide best execution. We will periodically and systematically review our policies and procedures regarding recommending broker-dealers to you in light of our duty to obtain best execution.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist our firm in the investment decision-making process. Such research generally will be used to service all of our clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's



portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest. We may receive from Fidelity, without cost to our firm, computer software and related systems support, which allow us to better monitor your accounts maintained at Fidelity. We may receive the software and related support without cost because we render investment management services to clients that maintain assets at Fidelity. The software and related systems support may benefit our firm, but not you directly. In fulfilling our duties to you, we endeavor at all times to put your interests first. You should be aware; however, that our receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence our choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services. Additionally, we may receive the following benefits from Fidelity through the Fidelity Institutional Wealth Services Group: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its Institutional Wealth Services Group participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

We have also entered an agreement with Fidelity to provide our firm with general practice management and consultative services. As part of this engagement, we may receive technology, reports, and other materials from Fidelity at no cost to our firm. The materials and services that we receive under this engagement may benefit our clients who use Fidelity for brokerage/custodial services by enabling us to provide improved asset-allocation assessments and reporting to those clients. The receipt of these benefits, however, presents a conflict of interest in that it may create an incentive for us to recommend Fidelity for brokerage/custodial services.

### **Directed Brokerage**

In limited circumstances, and at our discretion, some clients may instruct our firm in writing to use one or more particular brokers to execute some or all of the transactions in their accounts. If you choose to direct our firm to use a particular broker, you will negotiate terms and arrangements for your account with the broker-dealer, and we will not seek better execution services or prices from other broker-dealers or be able to aggregate trades with other client accounts (as described below at *Block Trades*). As a result, you may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Thus, when directing brokerage business, you should consider whether the commission expenses, execution, clearance, and settlement capabilities that you will obtain through your broker are adequately favorable in comparison to those that we would otherwise obtain for you. Subject to our duty to obtain best execution, we may decline your request to direct brokerage if, in our sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

### **Brokerage for Client Referrals**

We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

### **Block Trades**

We generally combine multiple orders for shares of the same securities purchased for advisory accounts we manage (this practice is commonly referred to as "block trading"). We will then distribute a portion of the shares to participating accounts in a fair and equitable manner. The distribution of the shares purchased is typically proportionate to the size of the account, but it is not based on account performance or the amount or structure of management fees. Each participating account will pay a separate transaction fee for the trade.

## Item 13 Review of Accounts

Richard DeRafelo, Jeffrey Lehman, and/or Ronald Lehman will monitor your accounts on an ongoing basis and will conduct account reviews periodically. The reviews will ensure that the advisory services provided to you and the portfolio mix is consistent with your current investment needs and objectives. Additional reviews may be conducted based on various circumstances, including, but not limited to:

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

You will receive trade confirmations and monthly or quarterly statements from your account custodian(s). We will also provide you with additional or regular written reports at least annually. Reports we provide to you will contain relevant account and/or market-related information such as an inventory of account holdings and account performance, etc.

## Item 14 Client Referrals and Other Compensation

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

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

As disclosed under the "Fees and Compensation" section in this brochure, persons providing investment advice on behalf of our firm are licensed insurance agents. For information on the conflicts of interest this presents, and how we address these conflicts, please refer to the "Fees and Compensation" section.

## Item 15 Custody

As paying agent for our firm, your independent custodian will directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. We do not have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian. You will receive account statements from the independent, qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy.

If you have a question regarding your account statement, or if you did not receive a statement from your custodian, please contact us directly at the telephone number on the cover page of this brochure.

Jeffrey Lehman serves as trustee or has bill pay/check writing authority for certain accounts for which we provide investment advisory services. Mr. Lehman's capacity as a trustee or having or bill pay/check writing authority gives him custody over the advisory accounts for which he serves in such capacity. These accounts will be held with a bank, broker-dealer, or other independent, qualified custodian. If Mr. Lehman acts as trustee or or has bill pay/check writing authority for any of your advisory accounts, you will receive account statements from the independent, qualified custodian(s) holding your funds and securities at least quarterly. You should carefully review account statements for accuracy. We will also provide statements to you. You should compare our statements with the

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

## **Item 16 Investment Discretion**

Before we can buy or sell securities on your behalf, you must first sign our discretionary management agreement, a power of attorney, and/or trading authorization forms.

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

If you enter into non-discretionary arrangements with our firm, we will obtain your approval prior to the execution of any transactions for your account(s). You have an unrestricted right to decline to implement any advice provided by our firm on a non-discretionary basis.

## **Item 17 Voting Client Securities**

### **Proxy Voting**

We may vote proxies on behalf of our clients. When we accept such responsibility, we will only cast proxy votes in a manner consistent with the best interest of its clients.

Absent special circumstances, which are fully described in our Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in our Proxy Voting Policies and Procedures, as they may be amended from time-to-time. At any time, you may contact us to request information about how we voted proxies for client's securities or to get a copy of our Proxy Voting Policies and Procedures. A brief summary of our Proxy Voting Policies and Procedures is as follows:

- Lehman & DeRafelo Financial Resources has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.
- The Proxy Voting Committee will generally vote proxies according to Lehman & DeRafelo Financial Resources' then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are to be followed as a general policy, certain issues will be considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, Lehman & DeRafelo Financial Resources shall devote an appropriate amount of time and resources to monitor these changes.
- In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that Lehman & DeRafelo Financial Resources maintains with persons having an interest in the outcome of certain votes, Lehman & DeRafelo Financial Resources will take appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

In the event you wish to direct our firm on voting a particular proxy, you should contact Rich DeRafelo at 610-565-2343 or [rich@lehmanfinancialresources.com](mailto:rich@lehmanfinancialresources.com) with your instruction.

Conflicts of interest between you and our firm, or a principal of our firm, regarding certain proxy issues could arise. If we determine that a material conflict of interest exists, we will take the necessary steps to resolve the conflict before voting the proxies. For example, we may disclose the existence and nature of the conflict to you, and seek direction from you as to how to vote on a particular issue; we may abstain from voting, particularly if there are conflicting interests for you (for example, where your account(s) hold different securities in a competitive merger situation); or, we will take other necessary steps designed to ensure that a decision to vote is in your best interest and was not the product of the conflict.

We keep certain records required by applicable law in connection with our proxy voting activities. You may obtain information on how we voted proxies and/or obtain a full copy of our proxy voting policies and procedures by making a written or oral request to our firm.

## **Item 18 Financial Information**

We do have custody of client funds through a trustee or bill pay/check writing authority arrangement with some of our clients. Please see Item 15 - Custody above. We are not required to provide financial information to our clients because we do not have any financial condition that is reasonably likely to impair our ability to meet contractual commitments to our clients. Additionally, we submit to the surprise annual audit by a qualified accounting firm on behalf of such accounts. The audit report is filed annually through an ADV-E amendment.

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

We are a federally registered investment adviser; therefore, we are not required to respond to this item.

## **Item 20 Additional Information**

### **Your Privacy**

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

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

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

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Please contact our main office at the telephone number on the cover page of this brochure if you have any questions regarding this policy.

**Trade Errors**

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account. If a trade error results in a profit, the trade error will be corrected in the trade error account of the executing broker-dealer and you will not keep the profit.

**Class Action Lawsuits**

Upon your request, we will assist you, in filing claims with the claims administrator to participate in any settlement proceeds related to class action settlements involving a security held in your portfolio. We may also help you to determine whether you are eligible to participate in class action litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held in your portfolio.