

# Solitude Financial Services Inc.

## Client Brochure

*This brochure provides information about the qualifications and business practices of Solitude Financial Services Inc. If you have any questions about the contents of this brochure, please contact us at (434) 218-2201 or by email at: [genekowalski@solitudefinancial.com](mailto:genekowalski@solitudefinancial.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.*

*Additional information about Solitude Financial Services Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Solitude Financial Services Inc's CRD number is: 150348*

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*Registration does not imply a certain level of skill or training.*

Version Date: 09/17/2019

## **Item 2: Material Changes**

The material changes in this brochure from the last annual updating amendment of Solitude Financial Services Inc. on May 24, 2018 are described below. Material changes relate to Solitude Financial Services Inc.'s policies, practices or conflicts of interests only.

- Gene will no longer maintain his Life Insurance certification or licensing in order to simplify Solitude's business practice.
- Affiliation with Professional Settlements Solutions Group, LLC has been terminated.
- Solitude Financial Services Inc. has transitioned to registration with the United States Securities and Exchange Commission from its prior registration at the state level.

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## **Item 4: Advisory Business**

### **A. Description of the Advisory Firm**

**Solitude Financial Services Inc.** (hereinafter “SFS”) is an S-Corp organized in the State of Virginia. SFS is a fee-only financial advice firm, located in Palmyra, Virginia. SFS has been in business since 2006, previously operating under the name of Kowalski Consulting. SFS became an S-Corp on January 23, 2014. It is owned and operated by the sole Investment Adviser Representative of the firm, Gene Michael Kowalski.

### **B. Types of Advisory Services**

SFS is a fee-only firm providing discretionary management services to clients. Client solutions are created by focusing on asset allocation plans that consider the client’s goals, risk tolerance, tax situation, and market understanding. Once an allocation is chosen, changes are made within a few months by focusing on price risks to move to a more favorable final allocation. At least once a year, assets are reset to the base allocation to lock in gains and purchase under-allocated assets.

Solutions will be created using common stock, individual bonds, and exchange-traded funds, mutual funds, and cash instruments. For more sophisticated portfolios, simple options strategies like covered calls, put protection, and long in-the-money calls may be employed to improve returns and control risks.

SFS will work with the client’s existing custodians, or recommend a new custodian to hold all assets or consolidate small accounts. SFS will not accept any compensation or other consideration for the choice of custodian, or for the brokerage of any transaction for a financial security.

#### **Solitude Financial Services are offered in four specific areas:**

**1. Initial Portfolio Review and Asset Allocation Analysis.** After an interview to determine market understanding, all financial accounts are reviewed to determine:

- Current percentage and dollar allocation to common asset classes like stock, bonds, or cash
- An analysis of risk based on the portfolio’s current variation from typical asset allocations based on age, risk tolerance, market understanding, and goals.
- A recommendation of assets to sell and those to buy to return the portfolio to an asset allocation that is less volatile and has tax, market, price and timing risk controls built into it.

Analysis and recommendations are in the form of a final report, “Initial Portfolio Review”, that may include spreadsheet calculations, individual security information, specific research, and public financial statements that support the conclusions.

**2. Annual Portfolio Review and Rebalance Analysis.** This is an annual follow-up to the initial portfolio review. The fee for this service only applies to clients or accounts without discretionary authority. During this review we will examine all financial accounts and determine:

- Current percentage and dollar allocation to common asset classes like stock, bonds, or cash.
- An analysis of risk based on the portfolio’s current variation from typical asset allocations based on age, risk tolerance, market understanding, and goals.
- A recommendation of assets to sell and those to buy to return the portfolio to an asset allocation that is less volatile and has tax, market, price and timing risk controls built into it.

Analysis and recommendations are in the form of a final report, “Annual Portfolio Review and Rebalance”, that may include spreadsheet calculations, individual security information, specific research, and public financial statements that support the conclusions.

**3. Specific advice on individual securities, or specialty financial accounts** to include IRA’s, education savings accounts, 401k’s, 403b’s, and other accounts with special contribution, use, and withdrawal rules. Advice is billed on an hourly basis at a maximum charge of \$60 an hour, with a one-hour minimum. Estimates of hours required for a specific task are provided at no charge.

**4. Discretionary Account Services.** After the execution of a Limited Power of Attorney for an investment account, SFS will make all changes to that account. Initial Review Service is required for all new clients before discretionary account services will be accomplished. Discretionary Account Services will:

- Ensure that SFS is able to quickly react to price opportunities and unplanned information while building a fully asset allocated and risk-controlled portfolio.

### **C. Client Tailored Services and Client Imposed Restrictions**

**Solitude Financial Services** works with the clients’ desires to ensure they are satisfied with the methods and solutions chosen for their portfolio. SFS will allow clients to refuse a specific security as a solution for their portfolio, and will work with the client to make adequate substitutions to achieve the desired allocation and balance. In all cases, achieving the client’s goals and honoring their values will be the primary consideration.

SFS does not specialize in complex strategies like market timing, technical trading, sophisticated options strategies like spreads or straddles, microcap companies, private placements, or other less common investments. If a client needs this type of advice, SFS will work with them to find another advisor who can assist in that area, or manage their entire portfolio.

#### **D. Wrap Fee Programs**

Solitude Financial Services does not use a wrap fee program, where a single fee would cover all fees and transaction charges. SFS fees on client contracts are charged for specific services, menu-style, and the client may refuse each individual service and its costs at contract acceptance.

#### **E. Amounts Under Management**

**Solitude Financial Services** has the following assets under management:

<b>Discretionary Amounts:</b>	<b>Non-discretionary Amounts:</b>	<b>Date Calculated:</b>
\$91,200,000.00	\$30,000,000.00	December 2018

### **Item 5: Fees and Compensation**

#### **A. Fee Schedule**

**Solitude Financial Services** charges a fee of \$400 for the first three services in Section B, above, and an hourly rate of \$100 for customized services.

- Higher fees may apply when reviewing or balancing larger portfolios over \$500,000.

Following an Initial Portfolio Review, the client may choose to have SFS handle accounts on a discretionary basis. If this option is chosen:

- Fees will be based on the assets under management for discretionary services.
- Fees rates will be specified in the client contract. Discounted rates may be specified in the client contract for AUM amounts above \$1,000,000.
- AUM will be calculated using the value of all accounts for which discretionary services are performed for the client. Once AUM is established, it is multiplied by the percentage rate specified in the SFS contract then divided by four for quarterly payments. Payments are due at the end of each quarter.
- The fixed annual portfolio rebalance fee may still apply if the client wishes an annual rebalance that includes non-discretionary accounts.

- Fees are calculated to the penny.
- When possible, Solitude may move fees to make small account values zero. This reduces the complexity of future transactions, including avoiding Prorata Rules.
- When possible, Post-Tax fees will be taken out of a single, Taxable account.

All fees and withdrawal dates are negotiable, but will be specified in a written contract before services are provided. Fees for similar services may be available elsewhere.

## **B. Payment of Fees**

Non-discretionary fees are due upon delivery of the advice in written form, or 5 days after contract signing, whichever is later. An invoice for payment and a receipt for the client's records will be provided.

Discretionary fees will be billed in four quarterly payments. Payment may be made directly by the client, or deducted via direct fee deduction from an account designated by the client in the contract. Fees may be taken out of one, several, or all accounts to meet the total. The contract will specify the AUM used to calculate the fee, the total fee, account(s) to debit, and the size of each quarterly or monthly payment.

In accordance with Virginia Requirement, direct fee deduction:

- Will be specified on the investment advice contract if it is to be used
- Will use concurrent billing statements to both the custodian and the client
- Both billing statements will state the AUM evaluation date, how the fee was calculated, and will clearly state that it is for the client's record and reference, not a bill.
- SFS will verify that the custodian supplies statements to the client at least on a quarterly basis.

## **C. Clients Are Responsible For Third Party Fees**

Since Solitude Financial Services provides only advice, a custodian that holds the assets will still be required. The client is responsible for transaction fees, account fees, management fees, fund fees, and other common brokerage expenses charged by the custodian.

## **D. Prepayment of Fees**

Fees are required in advance for the financial supervisory service without portfolio management.



Hourly rate advice is subject to a 50% advance to a maximum of 8 hours.

Fees are never held more than (6) months in advance.

Cancellation of discretionary services must be done in writing before the new quarter (or month) begins to prevent billing for the upcoming quarter (or month). Refunds are given for partial months. No refunds are given for hourly services or asset allocation analysis reports once the 5 day rescission period is past.

#### **E. Outside Compensation For the Sale of Securities to Clients**

Solitude Financial Services does not receive compensation for the sale of securities or other investment products.

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

No performance-based fees are used.

### **Item 7: Types of Clients**

Solitude Financial Services advises individuals and charitable organizations. Minimum account sizes are not used, however minimum fees apply to each client. If fees approach 2% of total assets for advice and analysis, service costs can be negotiated. More sophisticated analyses and services may be limited or unavailable due to cost for smaller accounts.

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

#### **A. Methods of Analysis and Investment Strategies**

SFS uses a fundamental approach to analyze securities. The most common form of analysis is to examine the price relative to earnings and earnings yield for stocks, price relative to yield and quality for bonds, and stability of value for cash and cash-like instruments. Other forms of information used for this approach include:

- Published reports from the company that created the security
- Published reports of other firm, industry, brokerage, or sector analysts
- Press reports and other relevant news
- Comparison to historical prices to make conclusions about price risk
- Commonly known public information that can be used to form opinions on the risk of the security, and the likelihood of changes in price of the security.

Investing in securities involves risk, which implies that money can be lost. The existence of risk provides the opportunity to profit, so shunning risk is not helpful if the desire is to achieve portfolio growth. Controlling risk is very helpful in minimizing losses and providing the opportunity for sustained growth over time. One of the best ways to control risk is to receive professional help with securities from financial advisors who are fiduciaries. SFS will serve its clients as a fiduciary. Clients should be prepared to experience portfolio losses. Returns on investing are not guaranteed.

## **B. Material Risks Involved**

Among the risks that need to be controlled:

- Market Risk – the term for the general risk faced by all financial assets
- Systemic Risk – the risk faced by a specific company
- Price Risk – buying or selling an asset at a poor price in the short term
- Liquidity Risk – choosing an asset that doesn't sell often and can't be bought or sold quickly.
- Currency Risk – asset value changes caused by the repricing of the underlying country's currency
- Timing Risk – buying or selling an asset just before significant material information become public knowledge
- Tax Risk - executing an asset transaction in an unfavorable manner for final taxation
- Suitability Risk – buying an asset that you don't understand well, and finding out it does not help you meet your goals.

Several proven methods can be combined to improve results over long periods of time and control risk. The following summary describes some of these methods and discloses how SFS will approach managing all portfolios, and control risk.

*SFS Core Investment Philosophies for Risk Management:*

- 1.SFS will apply the work of Ben Graham and Warren Buffet, the best examples of shrewd, patient, and independent market investors. These investors demonstrate that choosing great assets at great prices and holding them until the market inevitably factors in the long-term value best constructs a portfolio. They advise “price is what you pay, value is what you get”. They warn that you can overpay for anything, even the best asset in the market. SFS will use their models of fundamental analysis to determine whether current market prices for any security is appropriate, and customer risk and market knowledge assessments to determine the suitability of a security for a client's portfolio.
- 2.Turnover, taxes, and excessive management costs are the enemies of the goal of total return.
- 3.The only thing harder than calculating a good price is market timing.
- 4.Long holding periods and dollar cost averaging significantly reduce the risk of buying at high prices.

5. Investors often tend to believe trends will last longer than is reasonable, creating bubbles. As momentum, money, and support builds for an idea or asset, it is often time to sell and move on. Likewise, when the market loathes an asset, the prices are often the most attractive for the patient investor.
6. When making large moves, we will buy or sell only a portion of the final desired position when taking advantage of a great price. It is arrogant to think we can “call the turn”, top or bottom.
7. Watch what occurs around us when people buy and sell products for their life and family. Their behavior may help improve decisions about financial products.
8. Successful investing takes work and discipline. We will always do our share of the work of research, and will always approach the markets with disciplined strategies.
9. Broad stock indexes tend to beat managers because it is foolish to invest all portfolio money in stocks. SFS will not chase the performance of any market asset or benchmark. Our benchmarks are client satisfaction, risk management, and client goal achievement.
10. Finally, we will have a plan for each asset before it is bought. This plan will include price, size, and portfolio objective as defined by risks. Without a plan, we will be unprepared for volatility and our clients and their portfolio will react poorly when the asset inevitably changes in value.

### **C. Risks of Specific Securities Utilized**

SFS may use leveraged exchange traded funds (LETF) as a short-term method of hedging risks. LETF's track the underlying asset adequately for very short periods of time but have a documented tendency to fail to accurately track the underlying assets over long periods of time. Before such a security would be used, a written addendum to the client contract will specify:

- Which LETF is to be used
- What specific portfolio risk is being hedged
- The entry and exit strategy for the position.

LETF's will not be held for more than 180 days in any portfolio. No other securities used in any solutions that have risks other than those discussed above.

## **Item 9: Disciplinary Information**

Gene Michael Kowalski has no criminal, civil, or other disciplinary action taken against him, either in a material or immaterial manner. None of the below apply.

### **A. Criminal or Civil Action**

### **B. Administrative Proceeding Before the SEC, Any Other Federal Regulatory Agency, or Any State Regulatory Agency**

### **C. Proceeding Before a Self-regulatory Organization (SRO)**

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

### **A. Registration as a Broker/Dealer or Broker/Dealer Representative**

SFS does not represent a Broker Dealer or Broker Dealer Representative.

### **B. Registration as a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor**

SFS is not registered with a commodities or futures trading entities.

### **C. Registration Relationships Material to this Advisory Business and Possible Conflicts of Interests**

Neither SFS nor its representatives have any material relationships to this advisory business that would present a possible conflict of interest.

### **D. Selection of Other Advisors or Managers and How This Adviser is Compensated for Those Selections**

SFS will aid the search for another advisor if it becomes clear that the client has goals or needs that cannot be met with our conservative, risk-controlled approach. If a new advisor is recommended, no compensation will be accepted for the recommendation.

Similarly, if portions of a client's portfolio needs specialized approaches and are given to a third party for management and risk control, the size of the asset with the third party will be removed from the calculation of AUM. No compensation will be accepted by SFS from the third party managers/advisers.

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

### **A. Code of Ethics**

Solitude Financial Services Code of Ethics

Solitude Financial Services (SFS) code of ethics ensures that its actions will preserve and protect its commitments to the standards required of a fiduciary. The information below summarizes what behaviors the SFS Code of Ethics prohibits, preserves, or regulates. The complete COE will be furnished to each client at initial contact and will be furnished at other times upon request.

Solitude Financial Services has adopted a code of ethics to:

- Establish the firm's ideals and clearly communicate them to the client
- Preserve and protect the firm's ideals
- Clearly define acceptable methods of practice for advisory personnel
- Protect client personal and transactional information
- Establish rules for the collection and disclosure of any information that may be material to the client or affect adviser impartiality including the securities transactions of "access persons".
- Ensure the investment adviser and its personnel comply with the antifraud provisions of all applicable securities law including Section 206 of the Advisers Act.

#### **B. Recommendations Involving Material Financial Interests**

At the current time, neither Gene Michael Kowalski, nor any related persons, recommends to clients, or buys and sells for clients, securities which either him or any other related person has a material interest. If the situation ever arises, we will advise the client and seek a new advisor for their needs. Procedures and policies for this contingency are outlined in the SFS Code of Ethics.

#### **C. Investing Personal Money in the Same Securities as Clients**

In general, the personal portfolio of Gene Michael Kowalski will use the same securities that are being recommended to clients. An in depth understanding of each asset is a core principle that allow SFS to take advantage of pricing or risk control advantages with consistency. Since overlapping security ownership creates potential conflict, proper conduct by all SFS personnel in this area is clearly defined in the Code of Ethics.

#### **D. Trading Securities At/Around the Same Time as Clients' Securities**

In order to preserve fiduciary standards of conduct, SFS personnel behavior in this area is clearly defined in the firm's Code of Ethics. SFS will always put its clients' interests ahead of the firm's or the firm's adviser's interests. Clients' transactions will always be placed ahead of any firm transactions.

## **Item 12: Brokerage Practices**

### **A. Factors Used to Select Custodians and/or Broker/Dealers**

The factors used in choosing a custodian will be convenience of the client, access to all market assets, and price. We highly recommend Charles Schwab as the Custodian.

#### ***1. Research and Other Soft-Dollar Benefits***

SFS uses independent research, or uses the research provided by Charles Schwab, our most commonly used custodian. This research is provided as a free service to all clients. SFS does not engage in any soft dollar arrangements, where brokerage commissions for moving a client's assets to their control might compensate us. We do not receive any additional access or amount of research based on sending business to the custodians.

#### ***2. Brokerage for Client Referrals***

SFS does not receive referrals from any broker dealers.

#### ***3. Clients Directing Which Broker/Dealer/Custodian to Use***

SFS highly recommends Charles Schwab for brokerage. If a client wanted to direct brokerage, SFS would determine at the time of request if best execution could be achieved and make a decision whether or not to accept the request. If a decision was made to allow directed brokerage, SFS would document the reason why.

SFS will not receive any compensation for this choice, and will be willing to work with other custodians when required. When other custodians are used, clients may not be able to receive the same level of service in those accounts, or the fees charged by the custodian may be less competitive.

### **B. Aggregating (Block) Trading for Multiple Client Accounts**

SFS maintains the ability to block trade purchases across accounts. Block trading may benefit a large group of clients by providing SFS the ability to purchase larger blocks resulting in smaller transaction costs to the client. Declining to block trade can cause more expensive trades for clients.

## **Item 13: Reviews of Accounts**

### **A. Frequency and Nature of Periodic Reviews and Who Makes Those Reviews**

Only Gene Michael Kowalski, Investment Adviser Representative and Owner of SFS will conduct portfolio review. They will be conducted on a quarterly basis, with change notices sent to the clients when any is required. Quarterly changes will center on deploying cash deposits or addressing dramatic price moves in individual securities. Annual changes will focus on asset allocation levels and achieve desired balance.

### **B. Factors That Will Trigger a Non-Periodic Review of Client Accounts**

Non-periodic reviews will occur for any:  
Market move of more than 10% in a single day  
Market move of more than 20% in a 60-day period  
Material changes to an owned security that will affect suitability for retention in the portfolio.

### **C. Content and Frequency of Regular Reports Provided to Clients**

Discretionary clients will get customized reports on a quarterly basis. All clients will receive the periodic custodial reports which will be at least quarterly.

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

### **A. Economic Benefits Provided by Third Parties for Advice Rendered to Clients (Includes Sales Awards or Other Prizes)**

None Accepted.

### **B. Compensation to Non –Advisory Personnel for Client Referrals**

None Accepted.

## **Item 15: Custody**

SFS is deemed to have custody of client assets as a result of clients authorizing SFS to distribute assets from their accounts to a specific named recipient in accordance with a standing letter of instruction. Further, SFS may retain account credentials as described in Item 16 below. As such, every account managed for discretionary clients has or may have some aspect of limited custody. Therefore, SFS intends to comply with the SEC no-action letter dated February 21, 2017 that permits firms that comply with the no-action letter to forego the annual surprise custody examination.

Custody is also disclosed in Form ADV because SFS has authority to transfer money from client account(s), which constitutes a standing letter of authorization (SLOA). Accordingly, SFS will follow the safeguards specified by the SEC rather than undergo an annual audit.

## **Item 16: Investment Discretion**

SFS can accept discretionary funds, and act to make changes to accounts that have been set up to allow SFS direct access for asset transactions. Prior to acting with discretionary authority, the client must sign a contract that specifically allows discretionary authority as well as specifies the accounts for which this authority will be granted. For each account, a limited power of attorney (LPOA) must be executed with the custodian. This LPOA will allow account sign in and transaction access, but not withdrawal authority. Once in place, a client can cancel the authority at any time in writing or by email to SFS, as well as notifying the custodian of the account in the manner they require.

## **Item 17: Voting Client Securities (Proxy Voting)**

SFS does not have and will not accept authority to vote shares. Arrangements will be made with the custodians used to ensure all proxy materials are forwarded to the clients. Forward questions about proxy issues to SFS via email.

## **Item 18: Financial Information**

### **A. Balance Sheet**

SFS does not require nor solicit prepayment of more than \$1,200 in fees per client, six months or more in advance and therefore does not need to include a balance sheet with this brochure.



**B. Financial Conditions Reasonably Likely to Impair Ability to Meet Contractual Commitments to Clients**

Neither SFS nor its management have any financial conditions that are likely to reasonably impair our ability to meet contractual commitments to clients.

**C. Bankruptcy Petitions in Previous Ten Years**

There has been no bankruptcy filing by SFS or Gene Michael Kowalski in the last ten years, or earlier.