

# Brown Financial Advisory

## Firm Brochure

*This brochure provides information about the qualifications and business practices of Brown Financial Advisory. If you have any questions about the contents of this brochure, please contact us at (251) 928-9498 or by email at: [JoshL@BrownFinancialAdvisory.com](mailto:JoshL@BrownFinancialAdvisory.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 Brown Financial Advisory is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Brown Financial Advisory's CRD number is: 155548*

508 Fairhope Ave Fairhope, AL 36532 (251) 928-9498

[www.BrownFinancialAdvisory.com](http://www.BrownFinancialAdvisory.com)

[D. Scott McLeod, CFP®, ChFC®, President/CEO \(ScottM@BrownFinancialAdvisory.com\)](mailto:ScottM@BrownFinancialAdvisory.com)

[Joshua W. Lancaster, CFA, CCO/CIO \(JoshL@BrownFinancialAdvisory.com\)](mailto:JoshL@BrownFinancialAdvisory.com)

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

Version Date: 3/8/2019

## **Item 2: Material Changes**

There have been two material changes to this brochure since the last annual updating amendment of Brown Financial Advisory on January 1, 2018. They are as follows:

- The role of Chief Compliance Officer has transferred from D. Scott McLeod, CFP®, ChFC® to Joshua W. Lancaster, CFA.
- The Reviewer of client investment accounts under Item 13, Section A has transferred from D. Scott McLeod, CFP®, ChFC® to Joshua W. Lancaster, CFA.

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## Item 4: Advisory Business

### A. Description of the Advisory Firm

This firm has been in business since 12/31/2010, and the principal owner is Daniel Scott McLeod.

### B. Types of Advisory Services

Brown Financial Advisory (hereinafter “BFA”) offers the following services to advisory Clients:

#### *Wealth Management*

Wealth Management is the holistic combination of **Investment Supervisory Services** and a multi-disciplined approach to **Financial Life Planning**. Wealth Management Services, as outlined below, are available to every Client who meets the minimum annual fee (see Item 5 below):

#### *Investment Supervisory Services*

For Wealth Management clients, BFA offers ongoing portfolio management services based on the individual goals, objectives, time horizon, and risk tolerance of each Client. BFA creates an investment strategy that outlines the Client’s current situation (income needs, tax levels, and risk tolerance levels) and then constructs a plan (the Investment Policy Statement) to aid in the selection of a portfolio that matches each Client’s specific situation. Investment Supervisory Services include, but are not limited to, the following:

- Investment Strategy
- Asset Allocation
- Personal Risk Assessment
- Periodic Rebalancing
- Income Sourcing
- Personal Investment Policy
- Asset Selection
- Portfolio Monitoring
- Tax-Sensitive Asset Location
- Behavioral Coaching

BFA evaluates each Client’s investments with respect to their risk tolerance levels and time horizon. BFA will request discretionary authority from Clients to select securities and execute transactions without permission from the Client prior to each transaction. Clients may elect not to provide discretionary authority. Risk tolerance levels are documented in the Investment Policy Statement, which is given to each Client.

### ***Retirement Rollovers-No Obligation/Conflict of Interest***

A client leaving an employer typically has four options (and may engage in a combination of these options): 1) leave the money in his former employer's plan, if permitted, 2) roll over the assets to his/her new employer's plan, if one is available and rollovers are permitted, 3) rollover to an Individual Retirement Account (IRA), or 4) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences).

BFA may recommend an investor roll over plan assets to an IRA managed by BFA. As a result, BFA may earn an asset-based fee; however, a recommendation that a client or prospective client leave their plan assets with their old employer will result in no compensation. BFA has an economic incentive to encourage an investor to roll plan assets into an IRA that BFA will manage.

There are various factors that BFA may consider before recommending a rollover, including but not limited to: i) the investment options available in the plan versus the investment options available in an IRA, ii) fees and expenses in the plan versus the fees and expenses in an IRA, iii) the services and responsiveness of the plan's investment professionals versus those of BFA, iv) required minimum distributions and age considerations, and vi) employer stock tax consequences, if any. No client is under any obligation to roll over plan assets to an IRA managed by BFA.

### ***Financial Life Planning***

Each Wealth Management engagement utilizes Financial Life Planning, a multi-disciplined approach to helping families and individuals achieve their personal financial goals. The Financial Life Planning process may include, but is not limited to: goal setting, data organization, investment planning, insurance planning and risk management, tax concerns, retirement planning, estate plan summaries, college planning and spending plan strategies. Financial Life Planning services are available as part of a Wealth Management engagement and the cost is included in the Wealth Management engagement fee schedule.

### ***Hourly Financial Planning***

Financial Planning services may be provided based on an hourly fee arrangement (see below). When provided separate from the Wealth Management engagement, the final fee structure is documented in Exhibit I of the Financial Planning Services Agreement.

### ***Pension Consulting Services***

BFA offers ongoing consulting services to pension or other employee benefit plans (including but not limited to 401(k) plans) based on the demographics, goals, objectives, time horizon, and/or risk tolerance of the plan's participants. Pension consulting services may be provided on a non-discretionary basis (when serving as a 3(21) advisor) or a discretionary basis (when serving as a 3(38) advisor) and BFA only

places trades on behalf of the participants as part of its 3(38) pension consulting services.

### ***Services Limited to Specific Types of Investments***

BFA limits its investment advice and/or money management to mutual funds, equities, bonds, fixed income, debt securities, ETFs, real estate, hedge funds, private equity, third party money managers, REITs, insurance products including annuities, and government securities. BFA may use other securities as well to help diversify a portfolio when applicable.

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

BFA offers the same suite of services to all of its Clients. However, specific Client financial plans and their implementation are dependent upon the Client Investment Policy Statement which outlines each Client's strategy and is used to construct a Client specific plan to aid in the selection of a portfolio that matches restrictions, needs, and targets.

Clients may impose restrictions in investing in certain securities or types of securities in accordance with their values or beliefs. However, if the restrictions prevent BFA from properly servicing the Client account, or if the restrictions would require BFA to deviate from its standard suite of services, BFA reserves the right to end the relationship.

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

BFA does not participate in any wrap fee programs.

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

BFA has the following assets under management:

Discretionary Amounts:	Non-discretionary Amounts:	Date Calculated:
\$160,627,919	\$2,713,637	12/31/2018

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

### **A. Fee Schedules**

Wealth Management Fees for Investment Supervisory Services and Financial Life Planning may be paid in one of two ways:

1. Wealth Management Fee based on the fee schedule below; or
2. Fixed fee as discussed below in *Wealth Management Services Fees – Fixed Quarterly Fee*.

Financial Life Planning may be provided as a stand-alone engagement and the fees are charged on an hourly basis.

Examples of the costs of these engagements are outlined below:

***Wealth Management Services Fees – Assets Under Management***

Total Assets Under Management	Annual Fee*
\$1 - \$500,000	1.00%
\$500,001 - \$1,000,000	0.85%
\$1,000,001 - \$2,000,000	0.65%
\$2,000,001 - \$5,000,000	0.50%
\$5,000,001 - \$10,000,000	0.35%
\$10,000,001 - \$25,000,000	0.20%
\$25,000,001+	Negotiable

The Wealth Management Fee for Assets Under Management is subject to a \*minimum fee of \$1,750 per quarter. The minimum Wealth Management fee for Clients' immediate family members (parents and children) is reduced to \$1,000 per quarter. For purposes of calculating the fee, assets under management may include assets "held away" but which are still included in the Investment Supervisory Services.

***Wealth Management Services Fees – Fixed Quarterly Fee***

Wealth Management Fees may vary in circumstances where there are atypical complexities. When circumstances dictate that the investment portfolio cannot, should not or may not be managed on a discretionary basis (as in the case of illiquid investments, retirement plan accounts, the desire to maintain a diversified management team, etc.), a fixed quarterly fee may be established. This fee will be calculated using the Wealth Management – Assets Under Management fee schedule and the value of the supervised investment portfolio at the time of the initial engagement. The fee will be fixed for three (3) years and adjusted at the end of the period based on the value of the portfolio and the fee schedule at that time. The Wealth Management fixed quarterly fee is subject to the same minimums as the Wealth Management – Assets Under Management fee of \$1,750 per quarter for Clients and \$1,000 per quarter for the Client's immediate family (parents and children).

These fees are negotiable and the final fee schedule is attached as Exhibit I of the Wealth Management Services Agreement. Fees are paid quarterly in advance, and Clients may terminate their contracts with thirty days' written notice. Refunds are

given on a prorated basis, based on the number of days remaining in a quarter at the point of termination. Clients may terminate their contracts without penalty, for full refund, within 5 business days of signing the advisory contract. Advisory fees are withdrawn directly from the Client's account(s) with the Client's written authorization.

### ***Hourly Financial Planning Fees***

Financial Planning services may be provided separately from an ongoing Wealth Management engagement and will be based on an hourly fee arrangement.

#### ***Hourly Planning Fees***

The hourly fee for these services is between \$175/hour and \$350/hour. The fees are negotiable and the final fee schedule will be attached as Exhibit I of the Financial Planning Services Agreement. Fees are paid in advance based on the estimated number of hours for completing the Financial Plan but never more than six months in advance. Should the Financial Planning process terminate before completion, fees that are charged in advance will be refunded based on the prorated amount of work completed at the point of termination. Clients may terminate their contracts without penalty within five business days of signing the advisory contract.

### ***Pension Consulting Services Fees***

The annual fee for non-discretionary pension consulting services shall be calculated as follows:

Total Assets Under Advisement	Annual Fee
Less than \$500,000	0.75%
\$500,001 - \$1,000,000	0.60%
\$1,000,001 - \$2,000,000	0.50%
\$2,000,001 - \$5,000,000	0.40%
\$5,000,001 - \$10,000,000	0.30%
Above \$10,000,001	0.25%

The annual fees are based on the market value of the managed assets. The fee will be based upon the market value of the assets on the last business day of the previous fee period (without adjustment for anticipated withdrawals by plan participants or other anticipated or scheduled transfers or distributions of assets) and will be due the following business day. If the pension consultant agreement is terminated prior to the end of a fee period, BFA shall be entitled to a fee, prorated for the number of days in



the fee period prior to the effective date of termination. Discretionary pension consulting services will follow the Wealth Management Services fee schedule.

## **B. Payment of Fees**

### ***Payment of Wealth Management Fees***

Advisory fees are withdrawn directly from the Client's accounts with Client written authorization. Fees are paid quarterly in advance. Advisory fees may also be invoiced and billed directly to the Client quarterly in advance and will be paid via check. Clients may select the method in which they are billed.

### ***Payment of Hourly Financial Planning Fees***

Hourly Financial Planning fees are paid via check. Fees are paid in advance, but never more than six months in advance. Fees that are charged in advance will be refunded based on the prorated amount of work completed at the point of termination. The fees are negotiable and the final fee schedule will be attached as Exhibit I of the Financial Planning Services Agreement. Clients may terminate their contracts without penalty within five business days of signing the advisory contract.

### ***Payment of Pension Consulting Services Fees***

Pension Consulting fees are withdrawn directly from the Client's accounts with Client written authorization. Pension consulting fees may also be invoiced and billed directly to the Client. Clients may select the method in which they are billed. Fees are paid quarterly in arrears.

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

Clients are responsible for the payment of all third party fees (i.e. custodian fees, mutual fund fees, transaction fee etc.). Those fees are separate and distinct from the fees and expenses charged by BFA. Please see Item 12 of this brochure regarding broker/custodian.

## **D. Prepayment of Fees**

BFA collects fees in advance. Fees that are collected in advance will be refunded based on the prorated amount of work completed at the point of termination and the total days during the billing period. Fees will be returned within fourteen days to the Client via check.

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

Neither BFA nor its supervised persons accept any compensation for the sale of securities or other investment products, including asset-based sales charges or services fees from the sale of mutual funds.

## **F. Minimum Wealth Management Services Fee**

The annual minimum Wealth Management fee (either Assets Under Management or Fixed Quarterly Fee) is \$7,000 paid quarterly at \$1,750 per quarter. Fees are negotiable and the minimum may be waived by the investment advisor based on the needs of the Client and the complexity of the situation. The minimum Wealth Management fee for Clients' immediate family members (parents and children) is reduced to \$1,000 per quarter. For purposes of calculating the fee, assets under management may include assets "held away" but which are still included in the Investment Supervisory Services.

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

BFA does not accept performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a Client.

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

BFA generally provides investment advice and/or management supervisory services to the following Types of Clients:

- ❖ Individuals
- ❖ High-Net-Worth Individuals
- ❖ Pension and Profit Sharing Plans
- ❖ Corporations and Other Businesses

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

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

BFA's methods of analysis include charting analysis, fundamental analysis, technical analysis, and cyclical analysis.

**Charting analysis** involves the use of patterns in performance charts. BFA uses this technique to search for patterns used to help predict favorable conditions for buying and/or selling a security.

**Fundamental analysis** involves the analysis of financial statements, the general

financial health of companies, and/or the analysis of management or competitive advantages.

**Technical analysis involves** the analysis of past market data; primarily price and volume.

**Cyclical analysis** involves the analysis of business cycles to find favorable conditions for buying and/or selling a security.

**Investing in securities involves a risk of loss that you, as a Client, should be prepared to bear.**

## **B. Material Risks Involved**

BFA uses Long Term Trading.

BFA utilizes investment strategies that are designed to capture market rates of both return and risk. Frequent trading, when done, can affect investment performance, particularly through increased brokerage and other transaction costs and taxes. Short sales, margin transactions, and options writing generally hold greater risk and Clients should be aware that there is a chance of material risk of loss using any of those strategies.

**Investing in securities involves a risk of loss that you, as a Client, should be prepared to bear.**

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

BFA generally seeks investment strategies that do not involve significant or unusual risk beyond that of the general domestic and/or international equity markets.

**Mutual Funds:** Investing in mutual funds carries the risk of capital loss and thus you may lose money investing in mutual funds. All mutual funds have costs that lower investment returns. They can be of bond “fixed income” nature (lower risk) or stock “equity” nature (mentioned above).

**Stocks & Exchange Traded Funds (ETF):** Investing in stocks & ETF's carries the risk of capital loss (sometimes up to a 100% loss in the case of a stock holding bankruptcy).

**Precious Metal ETFs** (Gold, Silver, Palladium Bullion backed “electronic shares” not physical metal): Investing in precious metal ETFs carries the risk of capital loss.

**Long term trading** is designed to capture market rates of both return and risk. Due to its nature, the long-term investment strategy can expose Clients to various other types of risk that will typically surface at various intervals during the time the Client owns the investments. These risks include but are not limited to inflation (purchasing power) risk, interest rate risk, economic risk, market risk, and political/regulatory risk.

**Past performance is not a guarantee of future returns. Investing in securities**

involves a risk of loss that you, as a Client, should be prepared to bear.

## **Item 9: Disciplinary Information**

There are no legal or disciplinary events that are material to a Client's or prospective Client's evaluation of this advisory business or the integrity of our management.

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

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

Neither BFA nor its representatives are registered as a broker/dealer or as representatives of a broker/dealer or have an application pending.

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

Neither BFA nor its representatives are registered as a Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Advisor or have an application pending.

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

Neither BFA 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**

BFA does not utilize nor select other advisors or third party managers. All assets are managed by BFA management.

## **Item 11: Code of Ethics, Participation in Transactions, Personal Trading**

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

We have a written Code of Ethics that covers the following areas: Prohibited Purchases and Sales, Insider Trading, Personal Securities Transactions, Exempted Transactions, Prohibited Activities, Conflicts of Interest, Gifts and Entertainment, Confidentiality, Service on a Board of Directors, Compliance Procedures, Compliance with Laws and Regulations, Procedures and Reporting, Certification of Compliance,

Reporting Violations, Compliance Officer Duties, Training and Education, Recordkeeping, Annual Review, and Sanctions. Clients may request a copy of our Code of Ethics from management.

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

BFA does not recommend that Clients buy or sell any security in which a related person to BFA or BFA has a material financial interest.

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

From time to time, representatives of BFA may buy or sell securities for themselves that they also recommend to Clients. This may provide an opportunity for representatives of BFA to buy or sell the same securities before or after recommending the same securities to Clients resulting in representatives profiting off the recommendations they provide to Clients. BFA will always document any transactions that could be construed as conflicts of interest and will always transact Client business before their own when similar securities are being bought or sold.

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

From time to time, representatives of BFA may buy or sell securities for themselves at or around the same time as Clients. This may provide an opportunity for representatives of BFA to buy or sell securities before or after recommending securities to Clients resulting in representatives profiting off the recommendations they provide to Clients. BFA will not trade non-mutual fund or non-ETF securities 5 days prior to or 5 days after trading the same security for Clients.

# **Item 12: Brokerage Practices**

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

The Custodian will be chosen based on their relatively low transaction fees and access to mutual funds and ETFs. BFA will never charge a premium or commission on transactions, beyond the actual cost imposed by Custodian.

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

BFA receives research, products, or other services from its broker/dealer or another third-party in connection with Client securities transactions ("soft dollar benefits"). There is no minimum Client number or dollar number that BFA must meet in order to receive free research from the custodian or broker/dealer. There is no incentive for BFA to direct Clients to this particular broker-dealer over other broker-dealers who offer the same services. However, because this firm does not have to produce or pay for services or products it has an incentive to choose a custodian that provides those services based on its interests rather than

the Clients' interests. The first consideration when recommending broker/dealers to Clients is best execution. BFA always acts in the best interest of the Client.

BFA receives additional benefits from the custodian which are not considered "eligible" benefits. Specifically, BFA receives pricing discounts on Salesforce CRM and compliance assistance through the analysis of our best execution practices. These services could cause BFA to choose this custodian over another custodian, placing the Company's interest above our Clients' interests.

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

BFA receives no referrals from a broker-dealer or third party in exchange for using that broker-dealer or third party.

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

BFA allows Clients to direct brokerage. BFA may be unable to achieve most favorable execution of Client transactions if Clients choose to direct brokerage. This may cost Clients money because without the ability to direct brokerage BFA may not be able to aggregate orders to reduce transactions costs resulting in higher brokerage commissions and less favorable prices. Not all advisers require their Clients to direct brokerage

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

BFA maintains the ability to block trade purchases across accounts but will rarely do so. While block trading may benefit Clients by purchasing larger blocks in groups, we do not feel that the Clients are at a disadvantage due to the best execution practices of our custodian.

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

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

Client accounts are reviewed at least quarterly with regards to their investment policies and risk tolerance levels. These reviews are done by Joshua Wyatt Lancaster, Chief Investment Officer. All accounts at BFA are assigned to this reviewer.

All financial planning accounts are reviewed upon financial plan creation and plan delivery by Daniel Scott McLeod, President. There is only one level of review and that is the total review conducted to create the financial plan.

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

Reviews may be triggered by material market, economic or political events, or by changes in Client's financial situations (such as retirement, termination of employment, physical move, or inheritance).

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

Each Client will receive at least quarterly a written report detailing the Client's account performance, which may come from the custodian.

Clients are provided a financial plan concerning their financial situation. After the presentation of the plan, there are no further reports. Clients may request additional plans and/or reports that may result in an additional fee.

## **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)**

BFA does not receive any economic benefit, directly or indirectly from any third party for advice rendered to BFA Clients.

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

BFA does not directly or indirectly compensate any person who is not advisory personnel for Client referrals.

## **Item 15: Custody**

BFA does not take custody of Client accounts at any time. Custody of Client's accounts is held primarily at the custodian. Clients will receive account statements from the custodian and should carefully review those statements. BFA will send invoices to the Client at the same time Client accounts are debited at the custodian.

## **Item 16: Investment Discretion**

For those Client accounts where BFA provides ongoing supervision, BFA maintains discretionary authority over Client accounts with respect to securities to be bought and sold and amount of securities to be bought and sold. Clients may not limit BFA's discretionary authority over the kinds and amounts of securities traded. All buying and selling of securities is explained to Clients in detail before an advisory relationship has commenced. Discretionary Authority is given in the contract between BFA and the Client as well as in the custodial agreement between the Client and custodian.

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

BFA will not ask for, nor accept voting authority for Client securities. Clients will receive proxies directly from the issuer of the security or the custodian. Clients should direct all proxy questions to the issuer of the security.

## **Item 18: Financial Information**

### **A. Balance Sheet**

BFA 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 BFA 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**

BFA has never been the subject of a bankruptcy petition in the last ten years.