

Item 1 - Cover Page



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Form ADV Part 2A
Firm Brochure
February 21, 2024

This brochure provides information about the qualifications and business practices of Davis Financial Management, Inc. Please contact our Chief Compliance Officer at info@davisfinancialmanagement.com and/or (913) 890-7279 if you have any questions about the content of this brochure.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or any state securities administrator. Additional information about Davis Financial Management, Inc. is available on the SEC's website at www.adviserinfo.sec.gov. Click on the "Investment Adviser Search" link and then search for "Investment Adviser Firm" using the firm's IARD ("CRD") number, which is 143410.

While the firm and its associates may be registered and/or licensed within a particular jurisdiction, that registration and/or licensing itself does not imply an endorsement by any regulatory authority, nor does it imply a certain level of skill or training on the part of the firm or its associated personnel.

Item 2 - Material Changes

This Form ADV Part 2A firm brochure has been revised pursuant to Davis Financial Management, Inc.'s registration with the SEC as an investment adviser, and it supersedes all previous versions of the firm's brochures. The brochure has been modified to address disclosure requirements for an SEC-registered firm and therefore clients and prospective clients are encouraged to review the document in its entirety. Updates include material changes to our reportable assets under management (Item 4), revised risk statements (Item 8), new account custodians (Item 12), as well as how we serve client accounts (Items 15 and 16).

Our firm may at any time update this document and either send a copy of its updated brochure or provide a summary of material changes to its brochure and an offer to send an electronic or hard copy form of the updated brochure. Clients are also able to download this brochure from the SEC's website at www.adviserinfo.sec.gov or may contact our firm at info@davisfinancialmanagement.com or (913) 890-7279 to request a copy at any time.

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Information Found in this Document

Throughout this document Davis Financial, Inc. may be referred to as “the firm,” “firm,” “DFM,” “our,” “we,” or “us.” The client or prospective client may be also referred to as “you,” “your,” etc., and refers to a client engagement involving a single *person* as well as two or more *persons*, including legal entities and natural persons. In addition, the term “advisor” and “adviser” are used interchangeably where accuracy in identification is necessary (i.e., internet address, regulatory term/reference, etc.).

Our firm maintains a business continuity and succession plan that is integrated within the organization to ensure it appropriately responds to events that pose a significant disruption to its operations. A statement concerning the current plan is available under separate cover upon request.

The business and disciplinary history, if any, of an investment advisory firm and its representatives may be obtained by contacting the securities commission in the state where the client resides.

Item 4 - Advisory Business

Davis Financial Management, Inc. was originally established as a Kansas limited liability company in 2007. The firm is currently organized as an S-corporation and its stock is 100% owned by its Founder and President, Matthew W. Davis, CPA, PFS, CFP®,¹ who also serves as the firm's Chief Compliance Officer.

The firm's original registration as an investment adviser became effective in June of 2007 with the State of Kansas and has since changed to an SEC registration during February of 2024. Our firm and its associates may notice file, register, or meet exemptions to notice filing and/or registration in jurisdictions in which we conduct investment advisory business.

Our firm is not a subsidiary of another financial services industry entity; however, Mr. Davis is a CPA and provides certain accounting services via DFM under a separate agreement. Additional information about this other business activity is described in Items 10 and 15 of this firm brochure.

Advisory Services

Asset Allocation/Portfolio Monitoring Services

DFM provides asset allocation and portfolio monitoring services to clients involving an initial allocation of client assets into appropriate investment vehicles. Client objectives are determined through personal discussions in which investment goals are based on a client's goals and/or particular circumstances. After the initial allocation, DFM will review and monitor the accounts either on an annual basis or on an event-driven basis as a result of a change in economic conditions or in an individual client's life status. DFM will execute transactions in advisory accounts on a non-discretionary basis only (refer to Item 16 for details). Account supervision is guided by the stated objectives of the client (i.e., maximum capital appreciation, growth, income, or growth and income, etc.). Rebalancing or fine-tuning adjustments are recommended whenever it is deemed necessary to manage the risk of the portfolio.

DFM creates portfolios consisting primarily of no-load mutual funds and exchange-traded funds (ETFs) designed to meet particular investment goals which DFM has determined is suitable to the client's circumstances. DFM primarily recommends mutual funds and ETFs offered through Dimensional Fund Advisors LP (DFA).² DFA follows a passive investment philosophy with low holdings turnover (see Item 8 for information about investment strategy and risks). Portfolio weighting between funds, asset classes and market sectors will be determined. Once the appropriate portfolio has been determined, the portfolio will be supervised on an ongoing basis by DFA's portfolio managers and DFM. Clients have the right to place reasonable restrictions on the types of investments to be held in the portfolio.

Reportable assets under management by DFM as of its fiscal year end on December 31, 2023, were \$109,806,000 under non-discretionary agreements. We do not sponsor, nor do we serve as a portfolio manager, for a wrap fee investment program.

¹ The Certified Public Accountant (CPA) designation was granted by the Missouri State Board of Accountancy. The Personal Financial Specialist (PFS) designation granted by the American Institute of Certified Public Accountants (AICPA). The Certified Financial Planner Professional, CFP®, designation was granted by the CFP Board of Standards. Details are provided in Mr. Davis's accompanying Form ADV Part 2B Brochure Supplement.

² CRD # 106482/SEC # 801-16283. Our firm is not legally affiliated with Dimensional Fund Advisors LP.

Financial Planning Services

DFM also provides advice in the form of a Financial Plan. Clients engaging our firm for this service will receive a customized written report, providing the client with a detailed financial plan tailored to assist the client to achieve stated financial goals and objectives. In general, the financial plan will address any or all the following areas of concern:

Personal

Family records, budgeting, personal liability, estate information and financial goals.

Education

Education IRAs, financial aid, state savings plans, grants, and general assistance in preparing to meet dependent's continuing educational needs through development of an education plan.

Tax & Cash Flow

Income tax and spending analysis and planning for past, current and future years. DFM will illustrate the impact of various investments on a client's current income tax and future tax liability.

Death & Disability

Cash needs at death, income needs of surviving dependents, estate planning financial analysis and disability income analysis.

Retirement

Analysis of current strategies and investment plans to help the client achieve his or her retirement goals.

Investments

Analysis of investment alternatives and their effect on a client's portfolio.

Estate

Analysis of financial issues with respect to living trusts, wills, estate tax, powers of attorney, asset protection plans, nursing homes, Medicaid, and elder law.

Social Security

Review Social Security statements and an analysis completed to optimize Social Security income as it relates to the client's goals.

Insurance

Review of existing policies to ensure proper coverage for life, health, disability, long-term care, liability, home, and automobile.

Divorce Planning

DFM will work with the client to help them gain an understanding of their unique situation and provide them with a realistic financial picture so that they are in a better situation to communicate with legal counsel, a mediator or soon to be ex-spouse. Our firm can assist in the completion of cash flow and net worth projections, budgetary analysis, as well as help them to understand the financial consequences of a settlement.

Special Needs Planning

Assist special needs households determining how to save for the needed extra money, navigate government systems to pay for therapies and education, assist in assessing the need for life insurance for longer periods, identifying savings strategies that might jeopardize a special needs family member's opportunities to receive government benefits, as well as using planning tools that might include (or avoid) tax-sensitive ABLE savings accounts, as well as consideration of special-needs trusts.

Business Consultation

DFM is available to assist businesses in a variety of ways including employee retention and retirement strategies, coordination with financial institutions, corporate attorney, or an accounting firm. We do not serve as a retirement plan fiduciary, plan adviser or plan investment manager as defined in § 3(21) of the Employee Retirement Income Security Act of 1974 (ERISA) or as an ERISA § 3(38), nor do we serve as ERISA § 3(16) plan third-party administrator.

DFM gathers required information through in-depth personal interviews. Information gathered includes a client's current financial status, future goals, and attitudes toward risk. Related documents supplied by the client are carefully reviewed, including a questionnaire completed by the client, and a written report is prepared. Should a client choose to implement the recommendations contained in the plan, DFM suggests the client work closely with his/her attorney, accountant, insurance agent, and/or stockbroker. DFM may provide contact information for attorneys, accountants, insurance agents, et al, but is not compensated for these introductions. Implementation of financial plan recommendations is entirely at the client's discretion.

In addition to the written financial plan, DFM's Financial Planning services include personalized consultations with a DFM investment adviser representative for a six-month period after entering into the initial agreement. These additional consultations are entirely at the client's discretion. Annual reviews and updates to the client's plan past the initial six-month period, if desired, require a separate engagement. Financial Planning recommendations are not limited to any specific product or service offered by a broker dealer or insurance company. All recommendations are of a generic nature.

IRA Rollover Considerations

As a registered investment adviser, DFM is a fiduciary to every client, thus we are obligated to always act in our clients' best interest. In addition to our fiduciary status as an investment advisory firm, when DFM provides advice to retirement investors, such as advice about an employer-sponsored retirement plan, individual retirement account (IRA) or other qualified retirement plan, we may also be considered by the US Department of Labor and the Internal Revenue Service to be acting as a fiduciary under Title I of ERISA and the Internal Revenue Code. These fiduciary obligations include requirements that we disclose our services and fees, conflicts of interest, and the reasons our recommendations are in the client's best interests.³

We may recommend you withdraw the assets from your employer's retirement plan or other qualified retirement account and roll the assets over to an individual retirement account ("IRA") that we will manage. If you elect to roll the assets to an IRA under our management, we will charge you an asset-based fee as described in Item 5 of this firm brochure. This practice presents a conflict of interest

³ This Form ADV Part 2A firm brochure serves as our ERISA §408(b)(2) disclosure per US Department of Labor guidance.

because we have an incentive to recommend a rollover to you for the purpose of generating fee-based compensation rather than solely based on your needs. You are under no obligation, contractually or otherwise, to complete the rollover. Furthermore, if you do complete a rollover, you are under no obligation to have your IRA assets managed by us.

Employers may permit former employees to keep their retirement assets in their company plan. Also, current employees can sometimes move assets out of their company plan before they retire or change jobs. In determining whether to complete a rollover to an IRA, and to the extent the following options are available, you should consider the costs and benefits.

An employee will typically have four options:

1. Leave the funds in your employer's (former employer's) plan.
2. Roll over the funds to a new employer's retirement plan.
3. Cash out and take a taxable distribution from the plan.
4. Roll the funds into an IRA rollover account.

Each of these options has advantages and disadvantages. Before making a change, we encourage you to speak with your financial adviser, CPA and/or tax attorney. Before rolling over your retirement funds to an IRA for us to manage, carefully consider the following. NOTE: This list is not exhaustive.

1. Determine whether the investment options in your employer's retirement plan address your needs or whether other types of investments are needed.
 - a. Employer retirement plans generally have a more limited investment menu than IRAs.
 - b. Employer retirement plans may have unique investment options not available to the public such as employer securities or previously closed funds.
2. Your current plan may have lower fees than our fees.
 - a. If you are interested in investing only in mutual funds, you should understand the cost structure of the share classes available in your employer's retirement plan and how the costs of those share classes compare with those available in an IRA.
 - b. You should understand the various products and services available through an IRA provider and their potential costs.
 - c. It is likely you will not be charged a management fee and will not receive ongoing asset management services unless you elect to have such services. If your existing plan offers management services, there may be a fee associated with the service that is more or less than our asset management fee.
3. Our strategy may have higher risk than the option(s) provided to you in your plan.
4. Your current plan may offer financial advice, guidance, management, and/or portfolio options at no additional cost.
5. If you keep your assets titled in a 401(k) plan or retirement account, and you are still working, you could potentially delay your required minimum distribution beyond age 72.
6. Your 401(k) plan may offer more liability protection than a rollover IRA; each state may vary. Generally, federal law protects assets in qualified plans from creditors. Since 2005, IRA assets have been generally protected from creditors in bankruptcies; however, there can be exceptions. Consult an attorney if you are concerned about protecting your retirement plan assets from creditors.

7. You may be able to take out a loan on your 401(k) plan, but not from an IRA.
8. IRA assets can be accessed any time; however, prior to age 59 ½, distributions are subject to ordinary income tax and may also be subject to a 10% early distribution penalty unless they qualify for an exception such as disability, higher education expenses, or a home purchase.
9. If you own company stock in your plan, you may be able to liquidate those shares at a lower capital gains tax rate.
10. Your plan may allow you to hire us as the manager and keep the assets titled in the plan name.

It is important that you understand your options, their features and differences and decide whether a rollover is best for you. If you have questions, contact us at our main number listed on the cover page of this brochure.

Item 5 - Fees and Compensation

The fees described in the following paragraphs, as well as account minimums, under certain circumstances may be negotiable/waived with final determination made by Mr. Davis. Clients should note that similar advisory services may (or may not) be available from other registered investment advisers for similar or lower fees. Clients also have the option to purchase similar investment products recommended by DFM through other brokers or agents not affiliated with DFM.

Advisory Service Fee Schedules

Asset Allocation/Portfolio Monitoring Services

The annual fee for DFM's Asset Allocation/Portfolio Monitoring Services will be charged as a percentage of assets under management, according to the following schedule:

<u>Assets Under Management</u>	<u>Annual Fee (%)</u>
First \$1,000,000	1.00%
Next \$2,000,000	0.80%
Next \$2,000,000	0.70%
Next \$5,000,000	0.50%
Above \$10,000,000	Negotiable

We do not assess account opening or administrative "set-up" fees. A minimum initial asset under management balance of \$500,000 is required for this service. The minimum balance requirement may be negotiable under certain circumstances. If the minimum balance requirement is waived, the same fee schedule listed above is applied for billing purposes. DFM's minimum balance requirement may prevent DFM from accepting and providing investment management services to very small client accounts. DFM may group certain related client accounts for the purposes of achieving the minimum annual fee and determining the annualized fee.

The specific manner in which fees are charged by DFM is established in a client's written agreement with DFM. Fees will generally be debited from the account in advance at the beginning of each calendar quarter based upon the value (market value or fair market value in the absence of market value), of the client's account at the end of the previous quarter.

The first billing cycle will begin once the client agreement is executed, and account assets have settled into the client's separately identifiable account held by the custodian of record. The client's written authorization is required for the custodian of record to deduct advisory fees from the account. By signing the custodian's account opening documents, the client is authorizing the custodian to withdraw our fee, and the custodian will remit the Asset Allocation/Portfolio Monitoring Services fee directly to DFM. We do not entertain client requests to directly pay the firm its Asset Allocation/Portfolio Monitoring Services fee in lieu of having the advisory fee withdrawn from their investment account. The fee deducted from a client's account will be noted on account statements that the client receives directly from the account custodian of record, and we encourage our clients to review this information.⁴

DFM's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, 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. Mutual funds and ETFs also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of, and in addition to, DFM's fee, and DFM shall not receive any portion of these commissions, fees, and costs. Additional information about DFM's brokerage recommendations is included in Item 12.

Financial Planning Fees

Initial Consultation

Initial consultation Financial Planning fees will be charged in one of two ways:

As a **fixed fee**, typically ranging from \$1,500 to \$8,000. Fixed fees are quoted to a client based on an estimate of the time required to complete the service (at DFM's standard hourly rate of \$200) and will depend on the nature and complexity of each client's circumstances. Half the fee is generally due upon signing the financial planning agreement, with the balance due upon presentation of the financial plan to the client.

On an **hourly basis**, typically charged at \$200 per hour, depending on the nature and the complexity of each client's circumstances, as well as the DFM staff member performing the work. If appropriate, an estimate of total hours may be determined at the start of the advisory relationship. Half of the estimated fee may be due upon signing the financial planning agreement, with the balance (based on actual hours) due upon presentation of the plan to the client. Otherwise, DFM will invoice the client monthly, or quarterly, in arrears for fees due each billing period.

Financial Planning fees encompass the written financial plan and related client consultations for a six-month period after entering into the financial planning agreement.

Ongoing Financial Planning Services

After expiration of the six-month follow-up period to an initial consultation, Financial Planning fees for clients who choose to enter into ongoing financial planning services will be charged an annual fee

⁴ Periodic account value variances between the firm's invoice and custodian statement (beyond the firm's control) may occur due to late trade settlement, dividend distribution, etc., requiring adjusted transaction reporting from the custodian of record.

typically ranging from \$2,000 to \$8,000. This fee will be billed monthly or quarterly, in advance, and is negotiable based on the client's individual needs and circumstances. Ongoing financial planning services and the associated fee most typically apply to small business owners since these clients require more scrutiny and review of their business operations, business retirement plans, and income tax planning compared to individuals employed by third parties. Individuals who are not self-employed desiring an ongoing relationship with DFM generally sign an investment advisory agreement and compensate DFM by paying an asset-based fee. Please see the description of Financial Planning services in Item 4 of this Brochure for complete information on the services offered. After, or during, the initial financial planning agreement period (i.e., six months after signing the financial planning agreement), certain clients may also sign an investment advisory agreement with DFM.

Termination of Advisory Relationship

Either party may terminate the agreement at any time by communicating the intent to terminate in writing. DFM will not be responsible for investment allocation, planning advice, or transactional services (except for limited closing transactions) upon receipt of a termination notice. It will also be necessary that we inform the custodian of record that the relationship between the firm and the client has been terminated.

The client has the right to terminate the engagement without penalty within five business days after entering into the agreement with our firm. When an Asset Allocation/Portfolio Monitoring Services client terminates their agreement after the five-day period, the client will be assessed fees on a prorated basis for services incurred from either (i) as a new client, the date of the engagement to the date of the firm's receipt of the written notice of termination, or (ii) all other accounts, the last billing period to the date of the firm's receipt of termination notice. If we are unable to deduct our fees from an account at our custodian of record, then our earned fees will be due upon the client's receipt of our terminating invoice.

If a client terminates a financial planning service after this five business-day rescission period, we will assess our hourly fee (minus any advance payment) for work completed up to the date of termination.

We will provide a terminating invoice to the client that will contain the fee charged by our firm, the formula used to calculate our fee, the time period covered by the fee, the fee calculation itself, and the amount of unearned fees (if any) being returned to the client. Our firm will return any of its prepaid, unearned fees (if any) within 30 days of our receipt of termination notice.

Mutual Fund Fees

All fees paid to DFM for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. A client could invest in a mutual fund directly, without the services of DFM. In that case, the client would not receive the services provided by DFM which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives and specific allocations to each fund. Accordingly, the client should review both the fees charged by the funds and the fees charged by DFM to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

Brokerage Fees

All fees paid to DFM for investment advisory services are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, 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.

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

DFM advisory fees will not be based on a share of capital gains or capital appreciation (growth) of any portion of managed funds, also known as performance-based fees. Our fees will also not be based on side-by-side management, which refers to a firm simultaneously managing accounts that do pay performance-based fees (such as a hedge fund) and those that do not.

Item 7 - Types of Clients

DFM clients consist of individuals, high net worth individuals, small businesses, and their pension and profit-sharing (retirement) plans. We also offer our services to corporations, trusts, foundations, and charitable organizations. Refer to Item 5 for details involving minimum investment account size requirements.

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

DFM requires each client to complete an Investment Questionnaire designed to gain an understanding about the client's investment goals and objectives, risk tolerance, time horizon, and their personal future outlook on the investment environment and the economy in general. The results of the client's answers to the questionnaire assist DFM in choosing an appropriate model portfolio for each client.

DFM creates portfolios consisting primarily of no-load mutual funds and ETFs (collectively, "funds") based on strategic asset allocations designed to produce efficient portfolios. The mix of the assets (e.g., large and small ⁵ domestic stock funds, international stock funds, domestic and international bond funds, commodity funds, money market funds, etc.) utilized in each portfolio is focused on creating appropriate diversification. We seek to combine asset classes in our portfolios that have low correlations with each other, thus attempting to reduce volatility. While the mix of funds changes between each portfolio, the underlying assets are the same. Multiple portfolios exist via DFA (e.g., Conservative, Moderate, Aggressive, etc.) representing different levels of expected risk and return.

⁵ Market capitalization ("cap") assists investors in understanding the relative size of a company versus another. It aids in measuring the worth of a company in the open market and the market's perception of its future since it reflects what investors may be willing to pay for the company's stock. Examples include:

- Large-Cap – Established companies with market values of \$10 billion or more; reputations for producing quality goods and services; history of consistent dividend payments and steady growth.
- Mid-Cap – Companies with market values between \$2 billion and \$10 billion; established companies in industries experiencing or expected to experience rapid growth and increasing market share and/or improving competitiveness.
- Small-Cap – Newer companies with market values of \$250 million to \$2 billion; typically serving niche markets or emerging industries. Aggressive risk category investment; may be impacted by economic downturn, vulnerable to competition and uncertainties of their market.

Once the appropriate portfolio has been selected for a client, DFM will monitor and review client accounts either on an annual basis, or on an event-driven basis as a result of changes in the economy or in an individual client's life status. Accounts are rebalanced to target allocations whenever it is deemed necessary to manage the risk of the portfolio; however, DFM does not frequently trade within the accounts. As client's investment goals and objectives, time horizons, and/or attitudes towards investment risk change, DFM will initiate corresponding changes to appropriate model portfolios upon client agreement.

DFM utilizes supporting research from third parties, including economists affiliated with DFA. Our firm utilizes DFA funds in client portfolios. These funds generally follow a passive investment philosophy with low holdings turnover. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by DFM) will be profitable or equal any performance level(s). Investing in securities involves risk of loss that clients should be prepared to bear. Our firm takes the position that its methods of analysis and investment strategies do not present any significant or unusual risks. However, accounts under DFM management are non-discretionary in nature, meaning that recommendations for changes to investment accounts require client approval.

While the following list is not exhaustive, we provide some examples of such risk in the following paragraphs, and we believe it is important that our clients review and consider each prior to investing. Note that some of these risks are associated with underlying holdings of a mutual fund or ETF (e.g., stocks or bonds, etc.).

Active Management

Generally, a portfolio that employs a range of active management strategies at times may outperform or underperform various benchmarks or other strategies. In an effort to meet or surpass these benchmarks, active portfolio management may require more frequent trading or "turnover." This may result in shorter holding periods, higher transactional costs and/or taxable events generally borne by the client, potentially reducing, or negating certain benefits of active asset management.

Catastrophic Risk

Natural or man-made catastrophes can disrupt financial markets and impact securities prices. Examples include terrorist attacks, natural disasters, war, etc. Investment companies can use "exigent circumstances" or "force majeure" as a defense against claims of loss by investors.

Commodities Risks

Commodities refer to grains, metals, gas, electricity, et al, and are often considered speculative investments. Risks involving trading in commodities often refer to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities.

Company Risk

When investing in securities, such as stocks, there is always a certain level of company or industry-specific risk that is inherent in each company or issuer. There is the risk that the company will perform

poorly or have its value reduced based on factors specific to the company or its industry. This is also referred to as an *unsystematic risk* and can be reduced or mitigated through diversification.

Country/Regional Risk

World events such as political upheaval, financial troubles, or natural disasters will adversely affect the value of securities issued in foreign countries or regions. This risk is especially high in emerging markets where securities may be substantially more volatile and less liquid than securities in more developed countries. Because a fund may invest a large portion of its assets in securities located in any one country or region, including emerging markets, its performance may be hurt disproportionately by the poor performance of its investments in that area.

Currency Risk

The risk of loss from fluctuating foreign exchange rates when a portfolio has exposure to foreign currency or in foreign currency traded investments is known as currency risk.

Derivatives Risks

The use of futures contracts, forward contracts, options, and swaps is subject to market risk, leverage risk, correlation risk, liquidity risk and hedging risk. Market risk is the risk that the market value of an investment may move up and down, sometimes rapidly and unpredictably. Leverage risk is the risk that since derivatives may be purchased for a fraction of their value, a relatively small price movement in a derivative may result in an immediate and substantial loss or gain for an account and may cause an account to liquidate portfolio positions when this would not be advantageous to do so in order to satisfy account obligations. Correlation risk is the risk that changes in the value of the derivative may not correlate perfectly or at all with the underlying asset, rate, or index. Liquidity risk is described below. Hedging risk is the risk that derivative instruments used for hedging purposes may also limit any potential gain that may result from the increase in value of the hedged asset. To the extent that an account engages in hedging strategies, there can be no assurance that these strategies will be effective or that there will be a hedge in place at any given time. An account's use of forwards and swaps also is subject to credit risk and valuation risk. Credit risk is the risk that the counterparty to a derivative contract will default or otherwise become unable to honor a financial obligation. Valuation risk is the risk that the derivative may be difficult to value. Options risk is more fully described below. Each of these risks could cause an account to lose more than the principal amount invested in a derivative instrument.

Emerging Markets Securities Risks

Investments in emerging markets securities are considered speculative and subject to heightened risks in addition to the general risks of investing in foreign securities. Unlike more established markets, emerging markets may have governments that are less stable, markets that are less liquid, and economies that are less developed. In addition, the securities markets of emerging market countries may consist of companies with smaller market capitalizations and may suffer periods of relative illiquidity; significant price volatility; restrictions on foreign investment; and possible restrictions on repatriation of investment income and capital. Furthermore, foreign investors may be required to register the proceeds of sales, and future economic or political crises could lead to price controls, forced mergers, expropriation or confiscatory taxation, seizure, nationalization, or creation of government monopolies.

Equity (Stock) Risk

Common stocks are susceptible to general stock market fluctuations and to volatile increases or decreases in value as market confidence in and perceptions of their issuers change. If an investor held common stock or common stock equivalents of any given issuer, they may be exposed to greater risk than if they held preferred stocks and debt obligations of the issuer.

Preferred stocks can be affected by interest rate and liquidity risks (described in adjacent paragraphs). Also note that their dividend payment is not guaranteed; some are subject to a call provision, meaning the issuer can redeem its preferred shares on demand, and usually when interest rates have fallen.

ETF Risks

ETF risks include risks due to their underlying securities (e.g., stocks, bonds, etc.), and can be affected by risks such as market, currency, credit, political, interest rate, etc., that are described in adjacent paragraphs. The liquidity of the underlying stocks in the index can affect "ETF liquidity." Liquidity risk can result from an insufficient number of "active participants" performing their duties as intermediaries and liquidity providers in the ETF market. "Spread risk" may also occur, which is the difference between the bid and the ask price of a security. Since ETF transactions are priced throughout the day and are traded on the exchanges like stocks, widening spreads may occur and have impact on certain portfolios or transactions. As with any security, if the ETF "fails," the investor may lose their gains and invested principal. ETFs can carry additional expenses based on their share of operating expenses and certain brokerage fees. Indexed ETFs have the potential to be affected by "active risk;" a deviation from its stated index.

Leveraged and/or inverse ETFs attempt to achieve multiples of the performance of an index or benchmark or the opposite (inverse) of the performance of the tracked index or benchmark. This strategy attempts to increase profit from upward drifting markets, or hedge exposures to, downward drifting markets. There is a risk involving this strategy and part of the concern is due to leveraged and inverse exchange traded funds "reset" daily, which means they are designed to achieve their stated objectives on a *daily basis*. It is due to the compounding effect of daily adjustments that ETF performance over longer periods of time can differ significantly from the performance (or inverse of the performance) of an underlying index or benchmark during the same period. This effect is potentially magnified during volatile markets. If effects contrary to the ETF strategy occur, losses may be significant; therefore, leveraged and/or inverse ETFs will be considered for portfolios either properly hedged or for clients able to sustain potentially higher risks. It is our position that leveraged and inverse ETFs are not used in portfolios where a "buy-and-hold" philosophy is important.

Failure to Implement

Our planning clients are free to accept or reject any recommendation that we make. While no advisory firm can guarantee future performance, no plan can succeed if it is not implemented. Clients who choose not to take the steps recommended in their plan may face an increased risk that their stated goals and objectives will not be achieved.

Financial Risk

Excessive borrowing to finance a business operation increases profitability risk because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

Fixed Income Risks

Various forms of fixed income instruments, such as bonds, money market or bond funds/ETFs may be affected by various forms of risk, including:

- Call Risk - During periods of falling interest rates, issuers of callable bonds may call (redeem) securities with higher coupons or interest rates before their maturity dates. The owner of the bond would then lose any potential price appreciation above the bond's call price and would be forced to reinvest the unanticipated proceeds at lower interest rates, resulting in a decline in the owner's income. Call risk is generally low for short-term bonds, moderate for intermediate-term bonds, high for long-term bonds, and high for high-yield bonds.
- Credit Risk - The potential risk that an issuer would be unable to pay scheduled interest or repay principal at maturity, sometimes referred to as "default risk." Credit risk may also occur when an issuer's ability to make payments of principal and interest when due is interrupted. Bondholders are creditors of an issuer and have priority over assets before equity holders (e.g., stockholders) when receiving a payout from liquidation or restructuring. When defaults occur due to bankruptcy, the type of bond held will determine seniority of payment.
- Interest Rate Risk - The risk that the value of the fixed income holding will decrease because of an increase in interest rates. The longer the maturity of the bond, the more sensitive its value is to changes in interest rates. Bond prices and interest rate changes are inversely correlated.
- Prepayment Risk - The prepayment risk is the premature return of principal on a fixed-income security. When principal is returned early on a security, future interest payments will not be paid on that part of the principal. The owner of the security would lose any price appreciation above the principal and be forced to reinvest the unanticipated proceeds possibly at lower interest rates, resulting in a decline of dividends, income, and returns. The risk of prepayment is most prevalent in fixed-income securities such as callable bonds and mortgage-backed securities.
- Reinvestment Risk - With declining interest rates, investors may have to reinvest interest income or principal at a lower rate.
- State Government and Municipal Securities Risk - State government and municipal securities are subject to various risks based on factors such as economic and regulatory developments, changes or proposed changes in the federal and state tax structure, deregulation, court rulings and other factors. Repayment of state and municipal securities depends on the ability of the issuer or project backing such securities to generate taxes or revenues. There is also a risk that the interest on an otherwise tax-exempt municipal security may be subject to federal income tax. Unfavorable developments in any economic sector may have far-reaching ramifications on the overall state and municipal market.

- US Government Securities Risk - US government securities are subject to varying interest rates and inflation risks. Not all US government securities are backed by the full faith and credit of the US government. Certain securities issued by agencies and instrumentalities of the US government are only insured or guaranteed by the issuing agency or instrumentality, which must rely on its own resources to repay the debt. As a result, there is a risk these entities will default on a financial obligation.

Foreign Securities Risk

Investments in securities of foreign companies (including direct investments as well as investments through American Depositary Receipts – *aka*. ADRs) can be more volatile than investments in US-based companies. Diplomatic, political, or economic developments, including nationalization or appropriation, could affect investments in foreign companies. Foreign securities markets generally have less trading volume and less liquidity than US markets. In addition, the value of securities denominated in foreign currencies, and of dividends from these securities, can change significantly when foreign currencies strengthen or weaken relative to the US dollar. Financial statements of foreign issuers are governed by different accounting, auditing, and financial reporting standards than the financial statements of US issuers and may be less transparent and uniform than in the United States. Thus, there may be less information publicly available about foreign issuers than about most US issuers. Transaction costs generally are higher than those in the US and expenses for custodial arrangements of foreign securities may be somewhat greater than typical expenses for custodial arrangements of similar US securities. Some foreign governments levy withholding taxes against dividend and interest income. Although in some countries a portion of these taxes are recoverable, the non-recovered portion will reduce the income received from the securities comprising an account's portfolio. These risks may be heightened with respect to emerging market countries since political turmoil and rapid changes in economic conditions are more likely to occur in these countries.

Index Investing

Index ETFs and indexed funds have the potential to be affected by "active risk" or "tracking error risk;" which might be defined as a deviation from a stated benchmark. Since the core portfolio attempts to closely replicate a stated benchmark, the source of the tracking error or deviation may come from a satellite portfolio or position, or from a "sample" or "optimized" index ETF or mutual fund that may not as closely align the stated benchmark.

Inflation Risk

Also called *purchasing power risk*, is the chance that the cash flows from an investment will not be worth as much in the future because of changes in purchasing power due to inflation.

Legal or Legislative Risk

Legislative changes or court rulings may adversely impact the value of individual investments, market sectors, or the overall market.

Liquidity Risk

Liquidity risk is the inability to readily buy or sell an investment for a price close to the true underlying value of the asset due to a lack of buyers or sellers. While certain types of fixed income are generally

liquid (e.g., bonds), there are risks which may occur such as when an issue trading in any given period does not readily support buys and sells at an efficient price. Conversely, when trading volume is high, there is also a risk of not being able to purchase a particular issue at the desired price.

Macroeconomic Risk

Macroeconomic risk derives from the behavior of industries and governments and the relationships between them rather than from individual companies. It concerns fiscal and monetary policies, trade and investment flows and political developments on a national and international scale. Business cycles, depressions, inflation, unemployment, interest rates, valuations, prices, and import/export volumes are all unpredictable and can lower or destroy investment portfolios. Central banks and governments often resort to inflationary policies and excessive fiat currency issuance through borrowing and printing. These macroeconomic maneuvers may possibly support or increase the nominal value of investment assets short term but lead to inflation and asset bubbles and later “crashes.”

Market Risk

This is also called systematic risk. In cases where markets are under extreme duress, many securities lose their ability to provide diversification benefits.

Money Market Funds

A money market fund is managed to maintain a stable net asset value (NAV) of \$1 per share, the value of the fund may fluctuate, and you could lose money (termed “breaking the buck”). Money market funds are a type of mutual fund investing in high-quality, short-term debt securities, pay dividends that generally reflect short-term interest rates and seek to maintain a stable NAV per share (typically \$1). An investment in a money market mutual fund is typically not insured or guaranteed by the Federal Deposit Insurance Corporation, National Credit Union Association, or any governmental agency.

Mutual Funds

As with ETFs, the risk of owning an open-ended, closed-ended, and fund-of-fund mutual funds are reflected in the underlying security(ies). Mutual funds are affected by risks such as market, interest rate, currency, credit, political, active risk, etc., as described in adjacent paragraphs. It is important to note that even “conservative” funds, such as a money market fund or fixed income fund, can and have lost their value below the principal amount invested. Mutual funds typically carry additional expenses based on their share of operating expenses and trading (brokerage) fees, which may result in the potential duplication of certain fees paid by the investor. Indexed mutual funds can also be adversely affected by “QDI ratios” that are described below. There are essentially nine main types of mutual fund shares classes, as well as sub-classes for some of these. Some mutual funds are sold through brokerage firms and assess a commission (“load”) in addition to their underlying fees earlier noted, while others are offered through investment advisers, retirement plans and other institutions. “No load” funds are also available to the public through brokerage firms, and they usually incur trading (brokerage) fees. If a client chooses to purchase a mutual fund on their own through a broker/dealer, they should consider the trading fees, internal operating costs, as well as potential commissions they pay through that executing broker or dealer. Our advisory firm and its personnel are not associated with a broker/dealer and are not compensated by a “loaded” fund.

Operational Risk

The potential for loss resulting from inadequate or failed internal processes, systems, actions of people, or external events. Many industries institute policies and procedures to respond and initiate alternative or supporting operations following a significant business disruption, while others do not. The level of operational risk and appropriate response are not uniform in definition, requirement, or measurement, including within the financial services sector.

Options Risks

We do not typically suggest or use options within client portfolios, but the mutual fund managers that we recommend may choose these investments. Risks involving options trading are detailed in the Chicago Board Options Exchange's "The Characteristics and Risks of Standardized Options" brochure that we will provide to you upon request or may be found at their website at: <http://www.cboe.com>. We have provided general considerations involving options in the following statements.

Option Buyer's Risks

- The risk of losing the entire investment in a relatively short period of time
- The risk of losing the entire investment increases as an option goes out of the money and as expiration nears
- European style options that do not have secondary markets in which to sell options prior to expiration only realize their value upon expiration
- Specific exercise provisions of a specific option contract may create enhanced risk, and
- Regulatory agencies may impose exercise restrictions, which may deter the investor from realizing value.

Option Seller's Risks

- 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 a "naked call" risk unlimited losses if the underlying stock rises; the writer of a "naked put" risk unlimited losses if the underlying stock drops. The writer of naked positions run margin risks if the position goes into significant losses, which may include liquidation by the broker/dealer of record. In addition, the writer of a "naked call" is obligated to deliver shares of the underlying stock if those call options are exercised.
- Writers of call options can lose more money than a short seller of that stock on the same rise on that underlying stock due to leveraging used in option strategies
- 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 these writers sold even if a trading market is not available or that they are unable to perform a closing transaction, and

- The value of the underlying stock may unexpectedly surge or drop which may lead to an automatic exercise.

Passive Management

If a portfolio employs a passive, efficient markets approach (e.g., Modern Portfolio Theory), there is a risk of generating lower-than-expected returns due to its broad diversification when compared to a portfolio more narrowly focused.

Political Risk

The risk of financial and market loss because of political decisions or disruptions in a particular country; also known as "geopolitical risk."

Qualified Dividend Income Ratios

While ETFs and mutual funds are known for their potential tax-efficiency and higher "qualified dividend income" (QDI) percentages, there are asset classes within these investment vehicles or holding periods that do not benefit. Shorter holding periods, as well as commodities and currencies (possible underlying holding of an ETF or mutual fund), may be considered "non-qualified" under certain tax code provisions. We will consider a holding's QDI when tax-efficiency is an important aspect of the client's portfolio.

Regulatory Risk

The risk of having the "license to operate" withdrawn or suspended by a regulator or having conditions or rule interpretations applied (retrospectively or prospectively) that adversely impact the economic value of a firm or an investment.

Research Data

When research and analyses are based on commercially available software, rating services, general market and financial information, or due diligence reviews, a firm is relying on the accuracy and validity of the information or capabilities provided by selected vendors, rating services, market data, and the issuers themselves. While our firm makes every effort to determine the accuracy of the information received, we cannot predict the outcome of events or actions taken or not taken, or the validity of all information researched or provided which may or may not affect the advice on or investment management of an account.

Sequence of Return Risk

The risk of receiving lower or negative returns due to early withdrawals from an investment account.

Settlement Risk

Also called *delivery risk*. The risk that one party will fail to deliver the terms of an investment contract with another party (contra-party) at the time of settlement. Settlement risk can be a risk associated with default, along with any timing differences in a settlement between the two parties.

Small- and Mid-Capitalization Company Risk

The small- and mid-capitalization companies in which an account may invest may be more vulnerable to adverse business or economic events than larger, more established companies. Investments in these small- and mid-sized companies may pose additional risks, including liquidity risk, because these companies tend to have limited product lines, markets, and financial resources, and may depend upon a relatively small management group. Small- and mid-cap stocks, therefore, may be more volatile than those of larger companies. These securities may be traded over the counter or listed “off-exchange.”

Sociopolitical Risk

The risk of instability in a region due to war, terrorism, pandemics, etc., that might affect investment markets.

Item 9 - Disciplinary Information

Neither the firm nor its management has been involved in any criminal or civil action in a domestic, foreign, or military jurisdiction, an administrative enforcement action, or self-regulatory organization proceeding that would reflect poorly upon our offering advisory business or its integrity.

Item 10 - Other Financial Industry Activities and Affiliations

DFM and its management are not registered nor have an application pending to register as a Financial Industry Regulatory Authority (FINRA) or National Futures Association (NFA) member firm or associated person of such a firm. The firm is not required to be registered with such entities, nor do they supervise our firm, its activities, or our associates. Neither the firm nor its management is or has a material relationship with any of the following types of entities:

- another financial planning firm, sub-adviser, or third-party investment manager (nor do we refer, select, or utilize their services)
- bank, credit union or thrift institution, or their separately identifiable department or division
- insurance company or insurance agency
- lawyer or law firm
- pension consultants external to our firm
- real estate broker, dealer, or adviser
- sponsor or syndicator of limited partnerships
- trust company, and
- issuer of a security, to include investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund).

Matthew W. Davis, DFM President, is separately a Certified Public Accountant (CPA). As such, Mr. Davis, in his separate capacity as a CPA, will be able to provide accounting and tax preparation services to clients, for which he would receive separate, yet customary compensation. Any preparation of accounting statements and tax returns is outsourced to third party CPA firms whom we have conducted prior due diligence. Mr. Davis expects to spend less than five percent of his time on this related activity during traditional business hours. Clients, however, are not under any obligation to engage Mr. Davis for

accounting services when considering the implementation of advisory recommendations. The implementation of any or all recommendations is solely at the discretion of the client. Mr. Davis endeavors at all times to put client's interests first as part of DFM's fiduciary duty; however, clients should be aware the receipt of additional compensation itself creates a conflict of interest and may affect someone's judgment when making recommendations.

Item 11 - Code of Ethics

DFM has a fiduciary duty to its clients to act in the best interest of the client and always place a client's interests first. We have designed our business methodologies, ethics rules, and policies in order to eliminate or at least minimize material conflicts of interest, and to appropriately manage any material conflicts of interest that may remain. It is important to point out that no set of rules can anticipate or relieve all material conflicts of interest. Our firm will disclose to its advisory clients any material conflict of interest relating to the firm, its representatives, or any of its employees which could reasonably be expected to impair the rendering of unbiased and objective advice. DFM takes its compliance and regulatory obligations seriously and requires all staff to comply with such rules and regulations as well as DFM's policies and procedures.

Privacy

DFM strives to handle its clients' non-public information to protect information from falling into hands that have no business reason to know such information. We provide clients and prospective clients with our privacy policy and send updates to our privacy policy to existing clients when changes occur.

Code of Ethics

We have adopted a Code of Ethics that establishes policies for ethical conduct for our personnel. Our firm accepts the obligation not only to comply with applicable laws and regulations but also to act in an ethical and professionally responsible manner in all professional services and activities. Firm policies include prohibitions against insider trading, circulation of industry rumors, and certain political contributions, among others. We periodically review and amend our Code of Ethics to ensure that they remain current, and we require firm personnel to annually attest to their understanding of and adherence to the firm's Code of Ethics. A copy of the firm's Code of Ethics is made available to any client or prospective client upon request.

CFP® Principles

Firm associates that are CERTIFIED FINANCIAL PLANNER™ Practitioners also adhere to the Certified Financial Planner Board of Standards, Inc.'s Code of Ethics & Professional Responsibility that can be found at www.cfp.net.

AICPA CPA Code of Professional Conduct

Firm associates that are Certified Public Accountants (CPA) adhere to the American Institute of Certified Public Accountants' (AICPA) *Code of Professional Conduct and Statement on Standards in Personal Financial Planning Services* which can be found at www.aicpa.org.

Firm Recommendations and Conflicts of Interest

Our associates are prohibited from borrowing from or lending to a client unless the client is an approved financial lending institution (e.g., bank, broker/dealer, etc.).

Neither the firm nor its associates are authorized to recommend to a client, or effect a transaction for a client, involving any security in which the firm or a “related person” (associates, their immediate family members, etc.) has a material financial interest, such as in the capacity as an underwriter, adviser to the issuer, etc.

The firm does not trade for its own account (principal trading); however, individuals associated with DFM may buy or sell securities identical to, or different than, those recommended to clients for their personal accounts. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client. It is the expressed policy of DFM that no person employed by DFM may purchase or sell any security prior to a transaction(s) being implemented for an advisory account, and therefore, preventing such employees from benefiting from transactions placed on behalf of advisory accounts. As these situations represent a conflict of interest, DFM has established the following restrictions in order to ensure its fiduciary responsibilities:

- An officer, director, or employee of DFM shall not buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public on reasonable inquiry. No DFM person shall prefer his or her own interest to that of the advisory client.
- DFM maintains a list of all securities holdings for itself, and anyone associated with this advisory practice with access to advisory recommendations. Mr. Davis, as firm CCO, reviews these holdings on a quarterly or more frequent basis.
- DFM requires that all individuals must act in accordance with all applicable federal and state regulations governing registered investment advisory practices.
- Any individual not in observance of the above may be subject to disciplinary action up to and including termination.

Item 12 - Brokerage Practices

Factors Used to Select Broker/Dealers for Client Transactions

Our clients’ accounts must be separately maintained by a qualified custodian (generally a broker/dealer, futures commission merchant, national bank, or trust company) that is frequently reviewed for its capabilities to serve in that capacity by their respective industry regulatory authority. DFM is not a custodian or broker/dealer, there is not an affiliate that is a custodian or broker/dealer, nor does a custodian or broker/dealer supervise DFM, its associates, or firm activities. The firm does not receive referrals from a broker/dealer or custodian, nor would client referrals be a factor in the firm’s recommendation of a broker/dealer or custodian.

If the firm is engaged to provide an investment consultation component of its financial planning service, we may recommend the service provider where client assets are currently maintained. If a client prefers a new service provider, a recommendation made by the firm would be based on client need, overall cost, and ease of use.

We have entered into agreements with Charles Schwab & Co., Inc. (“Schwab”) and Matrix Trust Company (“Matrix Trust”) to serve as custodians of record for our clients’ accounts. Schwab is a FINRA and SIPC member firm,⁶ as well as an SEC-registered broker/dealer. While we recommend that clients use Schwab or Matrix Trust as custodian, the client must decide whether to do so, and will open their account by entering into an account agreement directly with either Schwab or Matrix Trust. Our firm does not technically open an account for a client, but we will assist clients in doing so. If a client does not wish to place their account assets with Schwab or Matrix Trust, our firm may be able to manage the account at the client’s preferred custodian depending on that custodian’s account trading policies on what we term a “held-away” basis.

We seek to use a custodian who will hold client assets and execute transactions on terms that are overall advantageous when compared to other available providers and their services. Our firm considers a wide range of factors, including, among others, these:

- combination of transaction execution services along with asset custody services (generally without a separate fee for custody)
- capability to execute, clear and settle trades (buy and sell securities for an account)
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- breadth of investment products made available (stocks, bonds, mutual funds, ETFs, etc.)
- availability of investment research and tools that assist us in making investment decisions
- quality of services
- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them
- reputation, financial strength, and stability of the provider
- their prior service to us and our other clients, and
- availability of other products and services that benefit us, as discussed below.

When a client account is maintained at one of our preferred custodians, the client is typically not charged separately for custody services and the custodian is compensated by charging a commission and/or other associated fees on trades that the custodian or their affiliate executes or that settle into that custodian’s account. Our preferred custodians’ fee rate applicable to our client accounts was negotiated based on our commitment to maintain a certain amount of clients’ assets in accounts held at the custodian. This commitment benefits our client because overall rates are lower than they would be if we had not made the commitment. Our custodians also provide “business services” for independent investment advisory firms like ours; providing our firm and its clients with access to its institutional

⁶ Our advisory firm is not, nor required to be, a Securities Investor Protection Corporation (SIPC) member. Clients may learn more about the SIPC and how it serves member firms and the investing public by going to their website at <http://www.sipc.org>.

brokerage -- trading, custody, reporting and related services -- many of which are not typically available to a "retail customer." Our custodians also make available various support services, some of those services help us manage or administer our clients' accounts, while others help us manage and grow our business. The noted support services are generally available to us on an unsolicited basis (we don't have to request them) and at no charge to us if we keep a certain level of our clients' assets in accounts at that custodian. If we have less than the desired amount of client assets at a particular custodian, they may charge us service fees that we pay from our operating account. A custodian's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through our preferred custodians include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Our custodians' services described above generally benefit our clients.

Our preferred custodians also make available to our firm other products and services that benefit us but may not directly benefit each client's account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both that custodian's own and that of third parties. We may use this research to service all or some substantial number of our clients' accounts, including accounts not maintained at that custodian. In addition to investment research, a preferred custodian may also make available software and other technology that:

- provides access to client account data (such as duplicate trade confirmations and account statements)
- facilitates trade execution and allocates aggregated trade orders for multiple client accounts
- provides pricing and other market data
- facilitates payment of our fees from our clients' accounts, and
- assists with back-office functions, recordkeeping, and client reporting.

A custodian may also offer other services intended to help us manage and further develop our business enterprise, such as:

- educational conferences and events
- technology, compliance, legal, and business consulting
- publications and conferences on practice management and business succession, and
- access to employee benefits providers, human capital consultants and insurance providers.

Our preferred custodians provide some of these services themselves. In other cases, they may arrange for third-party vendors to provide the services to us. A custodian may also discount or waive its fees for some of these services or pay all or a part of a third party's service fees. A custodian may also provide us with other benefits such as occasional business entertainment for our personnel. Some of the noted tools and services made available by a custodian may benefit our advisory firm but may not directly benefit a client account. Certain tools, services or discounts made available to our firm by a custodian benefit our advisory firm but may not directly benefit each client account. While our firm does not think these services are considered "brokerage or research services" under Section 28(e) of the Securities Exchange Act of 1934, certain jurisdictions where we serve client accounts believe they fall under this definition -- where they might be termed "soft dollar benefits." The availability of these services benefits our firm because we do not have to produce or purchase them if clients maintain assets in accounts at a

particular custodian. There is a conflict of interest since our firm has an incentive to select or recommend a custodian based on our firm's interest in receiving these benefits rather than the client's interests in receiving favorable trade execution. It is important to mention that the benefit received by our firm through participation in any custodian's program does not depend on the amount of brokerage transactions directed to that custodian, and our selection of a custodian is primarily supported by the scope, quality, and cost of services provided as a whole, not just those services that benefit only our advisory firm. Further, we will act in the best interest of our clients regardless of the custodian we may suggest. Our firm conducts periodic assessments of any recommended service provider which generally involves a review of the range and quality of services, reasonableness of fees, among other items, in comparison to industry peers.

Best Execution

"Best execution" means the most favorable terms for a transaction based on all relevant factors, including those listed in the earlier paragraphs. We recognize our obligation in seeking best execution for our clients; however, it is our belief that the determinative factor is not always the lowest possible cost but whether the selected custodian's transactions represent the best "qualitative execution" while taking into consideration the full range of services provided. Our firm will seek services involving competitive rates, but it may not necessarily correlate with the lowest possible rate for each transaction. We have determined having our clients' investment accounts' trades completed through our recommended custodians to be consistent with our obligation to seek "best execution" of client trades. A review is regularly conducted regarding recommending a custodian to our clients in consideration of our duty to seek best execution.

While our firm has access to a broad range of securities through our preferred custodians, it is a finite number. In addition, not all fund managers, share classes, etc., are represented at each custodian. Due to these normal and customary limitations, not all portfolio holdings will be readily available, least expensive, best performing, etc. It is an unrealistic expectation for an investor to maintain a premise otherwise.

Directed Brokerage

Not all investment advisers require their clients to direct brokerage, nor do we think our operational relationship with our preferred custodians to be defined as "directed brokerage" per common industry practices. While our internal policy and operational relationship with our custodians necessitate client accounts custodied with them to have trades executed per their order routing requirements, we do not direct a custodian as to which executing broker should be selected for our clients' trades, whether that is an affiliate of a preferred custodian or another executing broker of that custodian's choice. As a result of our custodians' own trade execution policies, however, a client may pay higher commissions or other transaction costs, experience greater spreads, or receive less favorable net prices on transactions than might otherwise be the case. Since we routinely recommend a particular custodian to our clients, and that custodian may choose to use the execution services of its broker affiliate for some or all account transactions, there is an inherent conflict of interest involving our recommendation since our advisory firm receives various products or services earlier described. Note that we are not compensated for trade routing/order flow, nor are we paid commissions on such trades. We do not receive interest on an account's cash balance.

Client accounts maintained by our custodians under our firm's account master are unable to direct brokerage. As a result, they may pay higher commissions or other transaction costs, potentially experience greater spreads, or receive less favorable net prices on transactions for their account than would otherwise be the case if they had the opportunity to direct brokerage.

For accounts maintained at a custodian of the client's choice (e.g., held-away accounts), the client may choose to request that a particular broker is used to execute some or all account transactions. Under these circumstances, the client will be responsible for negotiating, in advance of each trade, the terms and/or arrangements involving their account with that broker, and whether the selected broker is affiliated with their custodian of record or not. We do not have an operational relationship/agreement with a "held away" account custodian and are not obligated to seek better execution services or prices from these other brokers, and we will be unable to aggregate transactions for execution via our custodian with other orders for accounts managed by our firm. As a result, the client may pay higher commissions or other transaction costs, potentially experience greater spreads, or receive less favorable net prices on transactions for their account than would otherwise be the case.

Aggregating Securities Transactions

Trade aggregation involves the purchase or sale of the same security for several clients/accounts at approximately the same time. This may also be termed "blocked" or "batched" orders. Aggregated orders are affected in an attempt to obtain better execution, negotiate favorable transaction rates, or to allocate equitably among multiple client accounts should there be differences in prices, brokerage commissions or other transactional costs that might otherwise be unobtainable through separately placed orders. Since our firm manages accounts on a non-discretionary basis, trade aggregation is infeasible and necessitates individual transactions; therefore, the account may potentially be assessed higher fees or receive less favorable prices than those where aggregation had occurred.

Item 13 - Review of Accounts

Asset Allocation/Portfolio Monitoring Services

For advisory client accounts monitored by DFM, portfolios and portfolio securities are reviewed on an annual basis, or on an event-driven basis as a result of a change in economic conditions or in an individual client's investment objectives. Changes in variables such as market, political or economic circumstances, or changes in a client's individual financial objectives or circumstances may trigger more frequent reviews. All reviews are conducted by Matthew Davis, DFM President. Additional reviews may also be performed at the request of a client. A copy of a revised investment guideline or asset allocation reports in printed or digital format will be provided to the client upon request.

Financial Planning

These client accounts will be reviewed by Mr. Davis as contracted for at the inception of the advisory relationship. Financial Planning clients will receive a completed financial plan in printed or digital format.

Client Reports

Advisory client accounts monitored by DFM receive quarterly written performance reports (on request) in digital or printed format from our firm that have been generated from our custodian's data systems; we do not create our own performance reports. We encourage our clients to carefully review and

compare account statements that clients have received from their custodian of record with any report clients may receive from any source if that report contains any type of investment performance information.

Whether a client has opened and maintained an investment account on their own or with our firm's assistance, they will receive account statements sent directly from custodians, mutual fund companies, transfer agents or brokerage companies where their investments are held. We urge our clients to carefully review their account statements for accuracy and clarity, and to ask questions when something is not clear.

Item 14 - Client Referrals and Other Compensation

Please refer to Items 10 and 12 for information with respect to our relationship with any service providers and our preferred custodians, and the conflicts of interest they present. If we receive or offer an introduction to a client, we do not pay or earn referral fees, nor are there established *quid pro quo* arrangements. Each client retains the option to accept or deny such referral or subsequent services.

Item 15 - Custody

DFM does not take physical custody of a client account. Our clients' accounts must be maintained by an unaffiliated, qualified custodian. Accounts are not to be maintained by our firm or any associate of our firm. In keeping with this policy involving our clients' accounts our firm:

- restricts the firm or an associate from having general power of attorney over a client account
- restricts the firm or an associate from serving as trustee over a client account unless it is an immediate family member
- does not accept or forward client securities (i.e., stock certificates) erroneously delivered to our firm
- prohibits the firm or an associate to have the client's bank or investment account access information (i.e., passwords and user identification)
- will not collect advance fees of \$1,200 or more for services that are to be performed six months or more into the future, and
- prohibits associates from having authority to directly withdraw securities or cash assets from a client account. Although we may be deemed to have limited (aka. constructive or indirect) custody of an account since we may request the withdrawal of advisory fees from an investment account, we will do so only on the following terms:
 - ✓ our firm will possess written authorization from the client to deduct advisory fees from an account held by the custodian,
 - ✓ we will send the client's qualified custodian a notice of the amount of the fee to be deducted from the client's account, and
 - ✓ the client must be able to receive an account statement directly from the account custodian.
- does not allow standing letters of authority (SLOAs) unless the:
 - ✓ client provides written instruction to their qualified custodian that includes the client's signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed

- ✓ client authorizes the firm in writing on their qualified custodian's form any power to direct transfers to the third party either on a specified schedule or from time to time
- ✓ client's qualified custodian performs appropriate verification of the client's instructions, such as a signature review or other method to verify the client's authorization and provides a transfer of funds notice to the client promptly after each transfer
- ✓ client has the ability to terminate or change the instruction to the client's qualified custodian
- ✓ firm has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the client's instruction
- ✓ third party is not a related party to our firm and is located at a different address as the firm
- ✓ client's qualified custodian sends the client a written initial notice confirming the instruction, and
- ✓ client is annually provided notice reconfirming their instructions.

While Matthew Davis is a CPA and offers accountancy and tax return preparation services via DFM, he does not serve clients in a capacity that would be defined as having physical custody (control) over an account, such as providing payroll/bill payment services.

The custodian of record and/or third-party administrator (e.g., retirement plan accounts) will provide investment account transaction confirmations and account statements, which will include all debits and credits for that period. Statements are provided on at least a quarterly basis, and confirmations are provided as transactions occur within an account. Our advisory firm will not create an account statement for an account nor serve as the sole recipient of an account statement.

Clients are reminded that if they receive a report from any source that includes investment performance information, they are urged to carefully review and compare the report with their account statements that they have received directly from their custodian of record.

Item 16 - Investment Discretion

DFM only provides portfolio management services on a non-discretionary basis. This type of account authority requires the client's ongoing prior approval involving the investment and reinvestment of account assets, as well as portfolio rebalancing. The client will be required to execute our firm's client services agreement that describes our limited account authority, as well as the custodian of record's account documents that include their limited power of attorney form or clause. In light of the requirement for client pre-approval, the client must make themselves available and keep our firm updated on their contact information so that instructions can be efficiently and timely effected on their behalf. Note that non-discretionary accounts are generally unable to be aggregated (see Item 12) and may therefore be assessed higher trading fees or receive less favorable prices than those accounts where trade aggregation has occurred.

Item 17 - Voting Client Securities

Clients may periodically receive proxies or other similar solicitations sent directly to them from their custodian or a securities transfer agent. If we receive a duplicate copy of the proxy request, note that we do not forward these or any correspondence relating to the voting of securities, class action litigation, or other corporate actions.

DFM does not vote proxies on a client's behalf. We do not offer guidance on how to vote proxies, nor will we offer guidance involving any claim or potential claim in any bankruptcy proceeding, class action securities litigation, or other litigation or proceeding relating to securities held at any time in a client account, including, without limitation, to file proof of claim or other documents related to such a proceeding, or to investigate, initiate, supervise, or monitor class action or other litigation involving client assets. We will answer limited client questions during a scheduled meeting with respect to what a proxy voting request or other corporate matter may be and how to reach the issuer or the issuer's legal representative.

Our clients maintain exclusive responsibility for directing the manner in which proxies solicited by issuers of securities that are beneficially owned by the client are voted, as well as making all other elections relative to mergers, acquisitions, tender offers, or other legal matters or events pertaining to their holdings. Clients should consider contacting the issuer or their own legal counsel involving specific questions they have with respect to a particular proxy solicitation or corporate action.

Item 18 - Financial Information

Fee withdrawals must be done through a qualified intermediary (e.g., custodian of record) following the client's prior written agreement.

Engagements with our firm do not require the collection of advance fees from a client of \$1,200 or more for our advisory services that have been agreed to be performed six months or more into the future.

Neither DFM nor its management serve as general partner for a partnership or trustee for a trust in which the firm's advisory clients are either partners of the partnership or beneficiaries of the trust.

DFM and its management do not have a financial condition likely to impair our ability to meet commitments to clients, nor has the firm and our management been the subject of a bankruptcy petition or any other material reportable financial event.

Due to the nature of the firm's advisory services and operational practices, an audited balance sheet is not required nor included in this brochure.