



CBM FINANCIAL, LLC

This brochure provides information about CBM Financial, LLC, dba Watercolor Financial's ("Watercolor Financial" "Advisor" or "Firm") qualifications and business practices. If you have any questions about the contents of this brochure, please contact us at (512) 250-1544 or by email at info@watercolorfinancial.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any State Securities Authority.

Additional information about Watercolor Financial is also available at the SEC's website [https://adviserinfo.sec.gov/\(select "investment adviser firm" and type in our firm name\)](https://adviserinfo.sec.gov/(select%20investment%20adviser%20firm%20and%20type%20in%20our%20firm%20name)). Results will provide you both Part 1 and 2 of our Form ADV.

We are a registered investment advisory firm. Our registration does not imply any level of skill or training. The oral and written communications we provide to you, including this brochure, are for you to evaluate us. Please use this information as factors in your decision to hire us or to continue our business relationship.

Item 1 – Cover Page ADV Part 2 A

March 4, 2024

CBM Financial, LLC, dba Watercolor Financial

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Annual Update

The Material Changes section of this brochure will be updated annually or when material changes occur since the previous release of the Firm Brochure. Each year, we will ensure that you receive a summary of any material changes to this and subsequent brochures by April 30th. We will further provide you with our most recent brochure at any time at your request, without charge. You may request a brochure by contacting us at [Company Phone].

Material Changes since the Last Update:

The following material changes have been made since the last filing on October 6, 2023:

- None

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4a: Firm Description

CBM Financial, LLC, dba Watercolor Financial, an LLC in the state of Texas, was established in November 2020 by Hal Bleckley Dobbs, Jr., Cathryn Grange, and Megan K. Poore. Watercolor Financial is owned by Hal Bleckley Dobbs, Jr., Cathryn Grange, and Megan K. Poore. Our main office is located in Austin, TX 78759.

4a1: Principal Members

- Megan K. Poore, President; Hal Bleckley Dobbs, Jr., Chief Compliance Officer and Cathryn Grange, Financial Advisor are the principal members of CBM Financial, LLC. They may be contacted by email at info@watercolorfinancial.com or by telephone at (512) 250-1544.

4b: Types of Advisory Services

Watercolor Financial offers investment advisory services to our clients' accounts with discretionary authority. Watercolor Financial's services include investment management, financial planning, consulting services and retirement advisory services. Prior to providing advisory services, clients are required to enter into a written agreement with Watercolor Financial.

When we provide investment advice to you regarding your retirement plan account or individual retirement account, we are fiduciaries within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way we make money creates some conflicts with your interests, so we operate under a special rule that requires us to act in your best interest and not put our interests ahead of yours. As fiduciaries we are obligated to do the following:

- Meet a professional standard of care when making investment recommendations (give prudent advice);
- Never put our financial interests ahead of yours when making recommendations (give loyal advice);
- Avoid misleading statements about conflicts of interest, fees, and investments;
- Follow policies and procedures designed to ensure that we give advice that is in your best interest;
- Charge no more than is reasonable for our services; and
- Give you basic information about conflicts of interest.

Investment Management Services

We work with our clients to identify their investment goals and objectives as well as risk tolerance in order to create an initial portfolio investment strategy designed to integrate with their specific financial goals and objectives. The Firm focuses on providing clients with investment portfolios designed to balance client specific risk and return requirements. Portfolios are constructed using a strategic asset allocation approach to provide a globally balanced investment strategy. Portfolios are constructed with diversified mutual funds, and exchange traded funds. Individual stocks and bonds can be used if appropriate for individual client needs.

Each portfolio will initially be designed to meet a particular investment goal which Watercolor Financial has determined to be suitable to our client's circumstances. Once the appropriate portfolio construction has been determined, we will monitor and rebalance the account based upon our client's individual needs, stated goals and objectives. Watercolor Financial's strategy, generally, will be to seek to meet client investment objectives while providing clients with access to personal advisory services. Watercolor Financial may also provide advice about any type of legacy investment holding or other investments held in client portfolios.

As a fiduciary, Watercolor Financial always acts solely in your best interests. Your portfolio is customized based on your investment objectives. You may make requests or make suggestions in writing regarding the investments made in your portfolio. Restrictions on trading which, in our opinion, are not in your best interest cannot be honored and if forced may result in the termination of our agreement.

Financial Planning Services

Watercolor Financial offers a range of financial planning services for our clients. Planning services are provided in conjunction with our investment management services. Financial Planning services are generally complimentary for clients that have investment management services. The exception would be if financial planning is requested for complex situations beyond our normal scope listed below.

The services take into account information collected from the client such as financial status, investment objectives, tax status, and financial resources, among other data. With respect to estate planning and tax planning, our role will be that of a coordinator between you and your designated professional(s).

Financial Planning includes, in all or part, but is not limited to, the preparation of a financial plan for an investment advisory client which may include reviews and recommendations on any or all of the following areas depending on the client's circumstances:

- **Investment Planning:** Determine with the client, based on their goals, time horizon and risk tolerance, how to structure a suitable portfolio (using mutual funds and ETF's) using principles of diversification, asset allocation, and sometimes asset location.
- **Investment Policy Statements:** Determining specific parameters within which a client's investments will be managed that can include the weighting of stocks to bonds to cash, the limitation on the use of any particular type of security, the methodology used for rebalancing and so on.
- **Portfolio review and evaluation:** Assessment of a client's existing portfolio to determine suitability of their current investments and in some cases, evaluating the differences between such and the methods Watercolor Financial utilizes to manage assets. Evaluation can include weighting of asset classes, types of securities used, concentrated positions, tax efficiency of investments, expense ratios and so forth.
- **Capital Needs Analysis (Goal Funding):** A method using time value of money calculations to determine how much a client would need to save, at a given level of return, every month or year in order to achieve a certain financial goal, such as paying for 4 years of college for their child.
- **Tax Management and Planning:** Forward-looking tax strategy that can help a client minimize their tax expenses and maximize what they have to invest. This can include planning for Roth Conversions, Strategic Charitable giving, Deferring income into tax advantaged retirement accounts, and tax-loss harvesting.
- **Trust and Estate Planning:** Helping a client understand how assets are distributed upon death and at times, working with their estate planning attorneys to achieve both their financial and estate planning goals. This also involves review of beneficiary designations and ensuring clients have the proper and updated documents drafted to ensure they are always in control of how assets will be distributed.
- **Retirement Planning:** Gathering data that relates to a client's assets, liabilities, expenses, goals and savings, and evaluating such to determine the most appropriate strategy to achieving the greatest probability of being able to retire in the lifestyle they desire and maintain such for the rest of their lives.
- **Social Security:** Helping a client decide when to file for social security is a critical part of the retirement planning process. Married clients are advised on how to make their selections based on their particular circumstances as a couple and can involve a complex analysis that depends on longevity, income needs, and whether the client/s intend to work in their retirement.

- **Employee Benefits:** If a client is an employee and has access to benefits, an analysis of available benefits can be done together with the client, offering advice on what benefits should be selected based upon the particular client's wishes, goals and family needs. This can include various types of insurance, Flexible Spending accounts, Employee Stock Purchase plans, Restricted Stock Awards, Options, and so on.
- **Education Planning:** Helping clients plan financially for the expenses involved in education and the function of various tax advantaged ways of saving for such expenses such as with a 529 plan and annual gifting.
- **Budgeting and Cash Flow Planning:** Determining with the client what their net income and monthly/annual expenses are so as to determine where costs might be reduced to produce additional cash flow that can be allocated towards goals.
- **Debt Management:** Where a client has debts, gathering data on the nature and interest rates being paid on all liabilities, then completing a cash flow analysis to come up with the best strategy for tackling the paying down of debt in the most efficient way possible.
- **Business Planning:** If a client has or wishes to set up a small business, advice can be provided on entity selection, setting up of a retirement plan, employee benefits, and potentially a cross-purchase/buy-sell agreement.
- **Charitable Giving:** When a client wishes to be philanthropic, Watercolor Financial can assist the client in how to leverage their investments to maximize contributions and provide tax advantages simultaneously. This can include gifting of required minimum distributions (RMD's), setting up of Donor Advised Funds or gifting of highly appreciated shares, to name a few.
- **Risk Management (Life and Disability Insurance):** Watercolor Financial does not sell insurance products but can offer advice on what types of insurance a client may need or be lacking and how much would be adequate to ensure their goals are still met in the event of a disability or premature death.
- **Disability Planning and Income Protection:** Using various planning tools, an analysis of any current income protection a client may have through work (or owned individually) is completed to determine whether there any "gaps" that might leave the client's family unable to meet financial goals and if so, providing advice with finding the appropriate coverage.

Retirement Plan Advisory Services

The Retirement Plan Advisory Services we offer help employer plan sponsors to establish, monitor and review their company's retirement plan. As the needs of the plan sponsor dictate, areas of advising could include investment selection and monitoring plan structure and participant education.

Our firm provides its advisory services as an investment advisor as defined under Section 3(21) and Section 3(38) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). We offer investment management of 401(k) accounts, profit sharing plans and defined contribution plans on a Plan level by managing the investment line-up making changes as necessary. Our firm will establish the plan's needs and objectives through an initial meeting to collect data, review plan information and assist in developing or updating the plan's provision. Ongoing services may include recommendations regarding the selection and review of unaffiliated mutual funds that, in the Firm's judgment, are suitable for plan assets to be invested. We periodically review the investment options selected and make recommendations to keep or replace plans investment options as appropriate.

For employer-sponsored retirement plans, we provide advisory services as an investment advisor as defined under Section 3(38) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

When serving as an ERISA 3(38) investment manager, the plan sponsor is relieved of all fiduciary responsibility for the investment decisions made by our firm. We are the discretionary investment manager in accordance with the terms of a separate ERISA 3(38) Investment Management Agreement between our firm and the plan sponsor. Our investment management is limited in that it has the discretion solely to replace funds in plan fund lineups and initiate the transfer of existing balances to the replacements without prior approval from the client.

Additionally, our firm offers Retirement Plan Consulting Services to our Plan Sponsors. Our Firm may assist the Plan Sponsor by acting as a service provider liaison, providing participant enrollment meetings, and assisting with participant education. While the primary clients for these services will be pension, profit sharing and 401(k) plans, we offer these services, where appropriate, to individuals and trusts and organizations. Pension Consulting Services are comprised of four distinct services. Clients may choose to use any or all of these services.

- **SELECTION OF INVESTMENT VEHICLES** - We assist plan sponsors in constructing appropriate asset allocation models. We will then review various mutual funds (both index and managed) to determine which investments are appropriate. The number of investments to be recommended will be determined by the client.
- **MONITORING OF INVESTMENT PERFORMANCE** - We monitor client investments continually, based on the procedures and timing intervals detailed in the Investment Policy Statement. Although our firm is not involved in any way in the purchase or sale of these investments, we supervise the client's portfolio and will make recommendations to the client as market factors and the client's needs dictate.
- **PARTICIPANT ENROLLMENT** - We will assist Plan Sponsor in enrolling Plan participants in the Plan, including conducting an agreed upon number of enrollment meetings. As part of such meetings, we will provide participants with information about the Plan, which may include information on the benefits of Plan participation, the benefits of increasing Plan contributions, the impact of preretirement withdrawals on retirement income, the terms of the Plan, and the operation of the Plan.
- **PLAN EDUCATION** - We will assist participant education, which may include preparation of education materials and/or conducting investment education seminars and meetings for Plan Participants. Such meetings may be on a group and/or individual basis. Such meetings shall not include specific investment advice about investment options under the Plan as being appropriate for a particular participant but may include the use of education investment models.

Plan participants have the ability to exercise control over the assets in their account, and we have no authority or discretion to direct the investment of assets of any participant's account under the Retirement Plan Consulting services offered by our firm.

- **ADDITIONAL INFORMATION CONCERNING PENSION & RETIREMENT PLAN CONSULTING-** All pension consulting services shall be in compliance with applicable State rules and statutes and/or the Investment Advisers Act of 1940, rules and regulations thereunder regulating the services provided by this Agreement. This

section applies to an Account that is a pension or other employee benefit plan (a “Plan”) governed by the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). If the Account is part of a Plan and we accept appointments to provide advisory services to such Account, Advisor acknowledges that it is a fiduciary within the meaning of Section 3(21) of ERISA (but only with respect to the provision of services described in section 1 of this agreement). Client represents that (i) Advisor’s appointment and services are consistent with the Plan documents, (ii) Client has furnished Advisor true and complete copies of all documents establishing and governing the Plan and evidencing your authority to retain Advisor. Client further represents that he will promptly furnish Advisor with any amendments to the Plan, and Client agrees that, if any amendment affects our rights or obligations, such amendment will be binding on Advisor only with our prior written consent. If ERISA or other applicable law requires bonding with respect to the assets in the account, Client will obtain and maintain at his/her/its expense bonding that satisfies this requirement and covers Advisor and any of our affiliates.

4c: Client Tailored Relationships and Restrictions

As a fiduciary, Watercolor Financial always acts solely in your best interests. Your portfolio is customized based on your investment objectives. You may make requests or make suggestions regarding the investments made in your portfolio. Restrictions on trading which, in our opinion, are not in your best interest cannot be honored and if forced may result in the termination of our agreement.

You are under no obligation to act upon Watercolor Financial's or associated person's recommendations.

4d: Wrap Fee Program

Watercolor Financial does not sponsor nor provide portfolio management services to a wrap fee program.

4e: Assets under Management (AUM)

As of 12/31/2023 Watercolor Financial has \$152,823,767 in assets managed on a discretionary basis and \$0 in assets managed on a non-discretionary basis.

ITEM 5 – FEES AND COMPENSATION

5a, b, c & d: Fee Schedules, Payments & Options

Investment Management

Account Balance	Annual Fee Rate (%)
Up to \$999,999	1.5%
\$1,000,000 - \$1,999,999	1.15%
\$2,000,000 - \$3,999,999	0.90%
\$4,000,000 - \$5,999,999	0.80%
\$6,000,000 - \$7,999,999	0.70%
\$8,000,000 - \$9,999,999	0.60%
\$10,000,000 and up	Negotiable

Fees are negotiable. Fees may differ based on a number of factors:

- Size of the relationship – Larger accounts may receive more favorable pricing.
- Accounts within the same household will be combined under a signed householding form for a reduced fee unless the client instructs otherwise.
- Less active accounts may receive more favorable pricing.
- Our employees and their family related accounts are charged a reduced fee for services.

For purposes of determining value, securities and other instruments traded on a market for which actual transaction prices are publicly reported are valued at the last reported sale price on the principal market in which they are traded. If the investments are not managed assets, they are not included in Watercolor Financials' fee calculation.

Compensation for our services will be calculated in accordance with what is set in the client agreement. We may modify the terms of any agreement by written changes submitted to the client for signature. While we strive to maintain competitive fees, the same or similar services may be available from other firms at higher or lower fees.

Watercolor Financial requires written authorization from the client to deduct advisory fees from an account held by a qualified custodian. Watercolor Financial sends the qualified custodian written notice of the amount of the fee to be deducted from the client's account. Watercolor Financial fees are paid from your account by the custodian when we submit an invoice to them.

Watercolor Financial fees are paid quarterly in advance based on the value as of the last business day of the prior quarter, with payment due within 10 days from the date of the invoice. Our fee is determined by taking the percentage rate we charge, divided by four, times the market value of the account. The market value is the sum of the values of all managed assets in the account, not adjusted by any margin debit.

In cases where there are partial fees at the commencement or termination of our agreement, they will be billed or refunded on a pro-rated basis contingent on the number of days the account was open. Quarterly fee adjustments for additional assets received into the account during a quarter or for partial withdrawals will also be provided on the above pro rata basis.

If there is insufficient cash in your account to pay your fees, securities in your portfolio may be sold to pay our fee.

In addition to our fees, there may be custodial fees or mutual fund fees. *See 5c: Third Party Fees below.*

Financial Planning Fees

For clients who engage Watercolor Financial for investment management services, fees for financial planning and consulting services are generally complimentary. Watercolor does not offer stand alone financial planning or consulting services.

Retirement Plan Advisory Services

Fees for portfolio monitoring, retirement plan ERISA planning and consulting services depend on the types of services that serve the client. We typically use our standard fee schedule. Fees are negotiable depending on the size of the plan and services rendered. Fees are paid quarterly in advance. Fees billed in advance are based on the value of the assets in the account as of the last business day of the prior quarter. For Plans where our fee is billed to the custodian, the fee is deducted directly from the participant accounts. Written authorization permitting us to be paid directly from the custodial account is outlined in the Agreement. Our maximum investment advisory fee is 1.5%, or we may negotiate a lower advisory fee. The specific advisory fees are set forth in your Investment Advisory Agreement.

5c: Third Party Fees

You are responsible for the payment of all third-party fees (i.e. custodian fees, mutual fund fees, transaction fees, etc.). Those fees are also separate and distinct from the fees we charge. Watercolor Financial does the best we can to minimize all fees and transaction costs.

All brokerage commissions, stock transfer fees, and other similar charges incurred in connection with transactions for the account will be paid out of the assets in the account and are in addition to the investment management fees paid to us. While we take measures to ensure the fees charged are accurate, it is your responsibility to ensure the amount of fee charged is correct. In addition to invoices and reports sent by us, you will receive statements directly from the custodian or mutual funds or other investments you hold. We strongly urge you to compare our invoices and reports to custodian statements for accuracy.

5.d: Termination

The investment advisory contract may be terminated by the client within five (5) business days of signing the contract without incurring any advisory fees or penalty. Ongoing, Watercolor Financial or our clients can terminate our agreement upon receipt of written notice to the other party.

When an agreement is terminated, we will refund any pre-paid, unearned fees based on the number of days remaining in the quarter after termination. Refunds will be made within 60 days of the effective date of termination.

You will be responsible for paying all fees including full quarterly custodial administrative fees, account closure fees, mutual fund fees and all trading costs due to the termination. If there is insufficient cash in the account, the liquidation of some securities may be used to pay the fees. Prior to termination of an agreement, we can provide a good-faith estimate of these fees.

5e: Other Investment Compensation

Watercolor Financial does not accept commission for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Watercolor Financial does not charge advisory fees on the performance of funds or securities in your account.

ITEM 7 – TYPES OF CLIENTS

Watercolor Financial generally provides asset management and financial planning services to the following types of clients:

- Individuals
- Families
- High-Net-Worth Individuals
- Trusts
- Estates
- Business
- Retirement Plans

Minimum Account Size:

Watercolor Financial has an account minimum of \$500,000 per household. However, we retain discretion to accept clients with smaller portfolios.

8a: Analysis

In determining the recommendations to give to you, we first gather and consider information regarding several factors including our client's:

- Current financial situation;
- Investment goals and objectives;
- Current and long-term needs;
- Tolerance and appetite for risk; and
- Level of investment knowledge.

Watercolor Financial uses multiple sources of information to obtain analysis and strategies. They include sources such as financial newspapers, financial magazines, research prepared by others, corporate rating services, prospectuses, company press releases, annual reports and filings with the SEC.

Watercolor Financial's methods of analysis include Fundamental Analysis, Modern Portfolio Theory and Cyclical Analysis,

Fundamental Analysis involves the analysis of financial statements, the general financial health of companies, and/or the analysis of management or competitive advantages.

Modern Portfolio Theory is a theory of investment that attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, each by carefully choosing the proportions of various assets.

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

8b: Investment Strategies

Asset Allocation

Watercolor Financial recommends a mix of asset classes for your portfolio based on an assessment of your long-term financial objectives. Watercolor Financial focuses on providing clients with portfolios designed to balance client specific risk and return requirements. Portfolios are constructed using a strategic asset allocation approach to provide a globally balanced investment strategy. Portfolios are constructed with diversified mutual funds, and exchange traded funds. Individual stocks and bonds can be used if appropriate for individual client needs.

Our recommended asset allocation is not influenced by current market conditions. This asset allocation is altered only when your long-term investment objectives have changed. Asset Allocation is based on the principle that different assets perform differently in different market and economic conditions. It is difficult to predict how any particular asset class will perform in any given year.

Diversification is a strategy for managing risk. Diversification does not ensure a profit or protect against a loss in a declining market. Asset Allocation is unlikely to generate the greatest returns since not all of the asset classes will do equally well.

Rebalancing

Asset allocations for your portfolio will change as financial markets rise and fall and the specific assets of different parts of your portfolio change. This creates the opportunity to selectively rebalance your portfolio in order to bring asset class percentages back to your policy targets. Asset classes that have risen beyond predetermined limits are sold by an amount that brings the allocation back in line with policy targets, and those that have fallen in value are purchased in the same way. This is a method of buying low and selling high that is not based on trying to predict the direction of markets or asset returns.

This rebalancing has the effect of enhancing portfolio returns while maintaining the agreed-upon risk. In order to limit rebalancing transactions and the costs associated with buying and selling mutual funds through the chosen custodian, Watercolor Financial has pre-determined ranges in which allocations may vary and at which rebalancing is

initiated.

Specific Investments

We generally select ETFs, mutual funds or similar securities. We may at times select individual securities or build individual stock portfolios for our clients. In these cases, Watercolor Financial examines each securities' management, financial condition, and market position and ensures that any purchases of individual securities work towards the client's portfolio goals, investment horizons and exposure to risk. Individual stocks present potential risks as prices of individual securities can move up or down due to general economic conditions, industry specific conditions, government regulations or corporate management, among other factors.

8c: Risk of Loss

All investments include a risk of loss that clients should be prepared to bear. Performance of any investment is not guaranteed. We use our best efforts and expertise to manage your assets. However, we cannot guarantee any level of performance or that you will not experience financial loss.

Fundamental Analysis concentrates on factors that determine a company's value and expected future earnings. This strategy would normally encourage equity purchases in stocks that are undervalued or priced below their perceived value. The risk assumed is that the market will fail to reach expectations of perceived value.

Modern Portfolio Theory assumes that investors are risk averse, meaning that given two portfolios that offer the same expected return, investors will prefer the less risky one. Thus, an investor will take on increased risk only if compensated by higher expected returns. Conversely, an investor who wants higher expected returns must accept more risk. The exact trade-off will be the same for all investors, but different investors will evaluate the trade-off differently based on individual risk aversion characteristics. The implication is that a rational investor will not invest in a portfolio if a second portfolio exists with a more favorable risk-expected return profile – i.e., if for that level of risk an alternative portfolio exists which has better expected returns.

Cyclical Analysis assumes that the markets react in cyclical patterns which, once identified, can be leveraged to provide performance. The risks with this strategy are two- fold: 1) the markets do not always repeat cyclical patterns; and 2) if too many investors begin to implement this strategy, then it changes the very cycles these investors are trying to exploit.

Clients should be aware that there is a material risk of loss using any investment strategy. The investment types listed below (leaving aside Treasury Inflation Protected/Inflation Linked Bonds) are not guaranteed or insured by the FDIC or any other government agency.

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. The funds can be of bond "fixed income" nature (lower risk) or stock "equity" nature.

Exchange Traded Funds (ETFs): Like any investment, index funds involve risk. An index fund will be subject to the same general risks as the securities in the index it tracks. The fund may also be subject to certain other risks, such as:

- Lack of Flexibility. An index fund may have less flexibility than a non-index fund to react to price declines in the securities in the index.
- Tracking Error. An index fund may not perfectly track its index. For example, a fund may only invest in a sampling of the securities in the market index, in which case the fund's performance may be less likely to match the index.
- Underperformance. An index fund may underperform its index because of fees and expenses, trading costs, and tracking error.

Equity investments generally refers to buying shares of stocks in return for receiving a future payment of dividends and/or capital gains if the value of the stock increases. The value of equity securities may fluctuate in response to specific situations for each company, industry conditions and the general economic environments.

Fixed income investments generally pay a return on a fixed schedule, though the amount of the payments can vary. This type of investment can include corporate and government debt securities, leveraged loans, high yield, and investment grade debt and structured products, such as mortgage and other asset-backed securities, although individual bonds may be the best-known type of fixed income security. In general, the fixed income market is volatile and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. The risk of default on treasury inflation protected/inflation linked bonds is dependent upon the U.S. Treasury defaulting (extremely unlikely); however, they carry a potential risk of losing share price value, albeit rather minimal.

ITEM 9—DISCIPLINARY INFORMATION

9a: Civil or Criminal Actions

Watercolor Financial and its managers have never been found guilty, convicted or pleaded no contest to a criminal or civil action in a domestic, foreign or military court.

9b: Administrative Enforcement Proceedings

Watercolor Financial and its managers have never been found by the SEC, any other state or federal agency or any foreign regulatory agency to have caused loss of the ability of an investment-related business to do business or been sanctioned, barred or limited in investment-related activities.

9c: Self-Regulatory Organization Enforcement Proceedings

Watercolor Financial and its managers have never been found by a self-regulatory agency to have caused loss of the ability of an investment-related business to do business. Additionally, Watercolor Financial and its managers have never been found in violation of self-regulatory agencies rules such that they were barred, suspended, limited in advisory functions or fined.

ITEM 10—OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

10a: Broker Dealers and Registered Representatives

Watercolor Financial is not registered as a broker-dealer and our employees are not registered representatives of any broker-dealer.

10b: Registration as a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor

Neither Watercolor Financial nor our employees hold any of the above registrations.

10c: Registration Relationships Material to this Advisory Business and Possible Conflicts of Interests

The principal business of Watercolor Financial is that of a registered investment advisor and provider of financial planning services.

We and our Financial Professionals have a conflict of interest in recommending that you roll over assets from a retirement plan or IRA where we do not provide services or receive compensation, to an IRA with us, for which we will receive compensation.

Watercolor Financial will disclose any material conflict of interest relating to Watercolor Financial, our representatives, or any of our associates which could reasonably be expected to impair the rendering of unbiased and objective advice.

10d: Selection of Other Advisors and How this Advisor is Compensated for those Selections

Watercolor Financial is not paid for the selection of other advisors, asset managers or portfolio managers.

Watercolor Financial may enter directly into sub-advisory relationships with independent registered investment advisory firms (“sub-advisors”) on behalf of its clients as part of our discretionary services. We do not receive any additional compensation for selecting a sub-advisor. Prior to entering into a relationship, Watercolor Financial performs a due diligence review of the sub- advisor. This review includes, but is not limited to, the review of regulatory filings,

investment offerings, and the performance of the strategies considered.

When a strategy offered through a subadvisor is appropriate for a client of Watercolor Financial, the client will be given the subadvisor's Form ADV Part 2A, Privacy Notice, and any other information that may be relevant or informative to the client.

ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

11a: Code of Ethics Description

We have adopted a Code of Ethics to which all investment advisor representatives and employees are bound to adhere. The key component of our Code of Ethics states that Watercolor Financial and its investment advisor representatives and employees shall always:

- Act with integrity, competence, dignity, and ethics when dealing with the public, clients, prospects, employers, and employees.
- Exercise its authority and responsibility for the benefit and interest of its clients first and to refrain from having outside interests that conflict with the interests of its clients. Watercolor Financial must avoid any circumstances that might adversely affect or appear to affect its duty of complete loyalty to its clients.
- Refrain from disclosing any nonpublic personal information about a client to any nonaffiliated third party unless the client expressly gives permission to Watercolor Financial to do so. All client information will otherwise be treated as confidential.
- Maintain the physical security of nonpublic information, including information stored on computers.

This Code of Ethics is in place to guide the personal conduct of our team and embodies our fiduciary duties and responsibilities to you and sets forth our practice of supervising the personal securities transactions of employees with prior or concurrent access to client trade information. A copy of the Watercolor Financial Code of Ethics is available, free of charge, upon request.

11b, c & d: Participation or Interest in Client Transactions

Watercolor Financial, or its employees, may buy and sell some of the same securities for our own accounts that we buy and sell for our clients. We will always buy or sell from our clients' accounts before we buy or sell from our accounts. In some cases, Watercolor Financial, or its employees, may buy or sell securities for our own accounts and not for clients' accounts, as it may not meet the objectives or plans for the client. There are possible conflicts of interest, which our Code of Ethics addresses. We will always evaluate our activity from the view of our clients to ensure that any and all required disclosures are made. For example, we will disclose anything that would cause you to be unfairly influenced to make any decision regarding actions or inactions in your account.

Watercolor Financial does not buy or sell between Watercolor Financial, our employees or our clients' accounts.

Watercolor Financial always tries to get the best price for the client. Watercolor Financial has in place internal controls and processes to allow contemporaneous trading (submitting Watercolor Financial or employee orders at the same time as client order) in block or aggregate trades. In other cases, except in the case of unaffiliated mutual funds, we will always trade individual securities in a client account before we trade Watercolor Financial or employee accounts.

Watercolor Financial does not recommend securities to advisory clients nor buy or sell securities for advisory client accounts in which Watercolor Financial or a related person has a material financial interest.

12a: Selecting Brokerage Firms**The Custodian and Brokers We Use**

Watercolor Financial does not maintain custody of your assets that we manage. Your assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank. We recommend that our clients use Fidelity Investments (Fidelity) as the qualified custodian. Watercolor Financial is independently owned and operated and not affiliated with Fidelity.

Custodians will hold your assets in a brokerage account and buy and sell securities when instructed to do so. While we recommend that you use Fidelity as custodian/broker, you will decide whether to do so and open your account by entering into an account agreement directly with them. If you do not wish to place your assets with Fidelity, then we cannot manage your account. Even though your account is maintained at Fidelity, we can still use other brokers to execute trades for your account, as described under **Your Custody and Brokerage Costs** below. Watercolor Financial does not receive any client referrals from Fidelity.

How We Select Brokers/Custodians

We seek to select a custodian/broker who will hold your assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others, 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 your 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, exchange traded funds(ETFs), etc.)
- availability of investment research and tools that assist us in making investment decisions
- quality of services
- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.).
- reputation, financial strength and stability of the provider
- their prior service to us and our other clients
- availability of other products and services that benefit us, as discussed below (*see “Products and Services Available to Us from Custodians we use”*)

To avoid creating a possible conflict of interest in recommending broker-dealers, we have established the following restrictions in order to ensure our fiduciary responsibilities:

1. Watercolor Financial adheres to our Code of Ethics as outlined in Item 11 above.
2. If Watercolor Financial receives separate compensation for transactions, we will fully disclose them.
3. Watercolor Financial emphasizes the unrestricted right of you to select and choose your own broker or dealer.
4. Watercolor Financial will always act in accordance with all applicable federal and state regulations governing registered investment advisory practices.

Your Custody and Brokerage Costs

For our clients' accounts it maintains, custodians generally do not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your account. For some accounts, custodians may charge you a percentage of the dollar amount of assets in the account in lieu of commissions. Custodian rates may be determined by committing a certain value of assets at the custodian. This commitment benefits you because the overall rates you pay are lower than they would be if we had not made the commitment. You may also be charged a flat dollar amount as a "prime Broker" or "trade away" fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Fidelity execute most trades for your account.

Products and Services Available to Us

Custodians may provide Watercolor Financial and our clients with access to brokerage – trading, custody, reporting and related services – many of which are not typically available to retail customers. These services help us manage or administer our clients' accounts while others help us manage and grow our business.

Services that Benefit You. You gain access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through custodians include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients.

Services that May Not Directly Benefit You. Other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both from the custodian 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 the custodian from which we received the benefit. In addition to investment research, custodians also make available software and other technology that:

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

Services that Generally Benefit Only Us. Some services are intended to help us manage and further develop our business enterprise. These services include:

- 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.

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

We endeavor at all times to put the interests of our clients first. You should be aware, however, that the receipt of the types of benefits discussed above can create a potential conflict of interest by influencing our choice of a custodian.

12.b: Sales Aggregation

Rebalancing is done on a client by client basis. Watercolor Financial does not aggregate.

13a: Periodic Reviews

Accounts are managed and reviewed by Hal Bleckley Dobbs, Jr., Cathryn Grange, and Megan K. Poore. The frequency of reviews is determined based on your investment objectives, on an ongoing basis but no less than annually. Accounts are reviewed to determine if the positions, transactions and strategies are consistent with the Client's stated investment objective(s) and whether any rebalancing or adjustments may be necessary.

13b: Review Triggers

More frequent reviews are triggered by a change in your investment objectives; tax considerations; large deposits or withdrawals; large sales or purchases; loss of confidence in corporate management; or, changes in economic climate.

13c: Regular Reports

All investment advisory clients receive reports as needed, but no less than annually, on representative investments recommended specifically by Watercolor Financial. Reports are generated through Orion based on custodian data. Performance reports may contain such items as: Performance Review, Summary by Account, Asset Allocation, Security Performance, Realized Gains/Losses, Holdings, and Transactions that occurred during the period. Custodian data is provided to Orion directly and reports are generated only using the custodian data.

Investment advisory clients also receive standard account statements from the custodian of their accounts on at least a quarterly basis.

ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**14a: Economic Benefits Provided by Third Parties for Advice Rendered to Clients**

We receive an economic benefit from Fidelity in the form of the support products and services it makes available to us and other independent investment advisors that have their clients maintain accounts at these custodians. These products and services, how they benefit us, and the related conflicts of interest are described above (*see Item 12 – Brokerage Practices*). The availability to us of these products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

Watercolor Financial does not receive economic benefits from third parties for the advice we render to our clients. As disclosed in Item 12 above, broker-dealers may provide services, tools or other non-financial benefits to us as a benefit for using the broker-dealer's services. However, we endeavor at all times to put the interests of our clients first. You should be aware, however, that the receipt of benefits can create a potential conflict of interest by influencing our choice of a broker-dealer.

14b: Compensation to Non-Advisory Personnel for Client Referrals

Watercolor Financial does not directly or indirectly compensate any person for client referrals.

ITEM 15 – CUSTODY

Watercolor Financial clients' accounts are held by a qualified custodian, as designated by the client in writing. Watercolor Financial may have custody of Client assets (i) where we have authority to withdraw advisory fees or to disburse funds or securities pursuant to a standing letter of authorization, and (ii) where we request Client funds to be disbursed pursuant to a standing letter of authorization. With the exception of the custody, and other than to withdraw advisory fees or to disburse funds or securities pursuant to a standing letter of authorization, Watercolor Financial shall have no liability to the client for any loss or other harm to any property in the account, including any harm to any property in the account resulting from the insolvency of the custodian or any acts of the agents or associated persons of the custodian and whether or not the full amount or such loss is covered by the Securities Investor Protection Corporation ("SIPC") or any other insurance which may be carried by the custodian. The client understands that SIPC provides only limited protection for the loss of property held by a broker-dealer.

As a fiduciary, Watercolor Financial will always act in the client's best interests and in doing so, the above does not limit or modify that duty to our clients. Custodial statements will include fees charged by Watercolor Financial.

ITEM 16 – INVESTMENT DISCRETION

Watercolor Financial asks our clients to give us discretionary authority to execute transactions without our client's prior approval. These transactions may include the purchase and selling of securities, arranging for payments or generally acting on behalf of our clients in most matters necessary to the handling of the account. This includes the buying or selling of securities, the rebalancing and selection of portfolios, the selection of portfolio managers or subadvisors or the disbursement of funds to the client as requested or arranged. Discretionary authority is granted once an election is made on the Investment Advisory Agreement and the agreement is signed by the client. We do not accept clients who do not wish to grant discretion authority.

You may make requests or make suggestions regarding the investments made in your portfolio. Restrictions on trading which, in our opinion, are not in your best interest cannot be honored and if forced may result in the termination of our agreement.

ITEM 17 – VOTING CLIENT SECURITIES

The clients of Watercolor Financial retain the authority to proxy vote. You should ensure that proxy ballots are mailed directly to you by selecting this option on your custodial application forms. You are welcome to delegate said proxy voting authority to a third-party representative (non-advisory personnel) by filing the appropriate custodial form. Watercolor Financial will not accept authority to vote client proxies. This policy is set forth in Watercolor Financial's standard advisory agreements. Proxy material will be sent from the transfer agent and in rare cases could come from Fidelity.

Should Watercolor Financial inadvertently receive proxy information for a security held in clients' accounts, it would immediately forward such information on to clients, but will not take any further action with respect to the voting of such proxy. Upon termination of the advisory relationship, Watercolor Financial will make a good faith and reasonable attempt to forward proxy information inadvertently received on behalf of clients to the forwarding address provided by clients. Clients may contact Watercolor Financial for advice or information about a particular proxy vote; however, Watercolor Financial shall not be deemed to have proxy voting authority solely as a result of providing such advice to clients.

ITEM 18 – FINANCIAL INFORMATION

18a: Balance Sheet

Watercolor Financial does not solicit prepayment of more than \$1,200 in fees per client six (6) months or more in advance.

18b: Financial Conditions

Watercolor Financial has no financial issues that could impair our ability to carry out our fiduciary duty to our clients.

18c: Bankruptcy Petition

Watercolor Financial has never been the subject of a bankruptcy petition.
