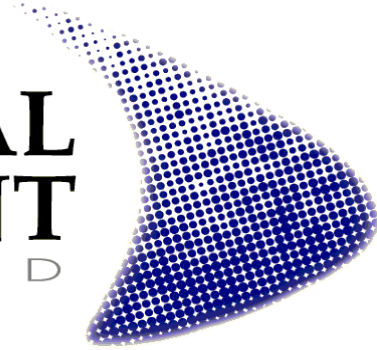


Item 1 – Cover Page

**FINANCIAL  
MANAGEMENT**  
I N C O R P O R A T E D



10809 Executive Center Drive, Suite 204

Little Rock, AR 72211

501.227.7400

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

March 30, 2011

This Brochure provides information about the qualifications and business practices of Financial Management, Inc., “FMI”. If you have any questions about the contents of this Brochure, please contact us at 501-227-7400, (toll-free 800.719.2796) or [contactus@fmioffice.com](mailto:contactus@fmioffice.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Financial Management, Inc. is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about Financial Management, Inc. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for FMI is 105000. The SEC’s web site also provides information about any persons affiliated with FMI who are registered, or are required to be registered, as investment adviser representatives of FMI.

## **Item 2 – Material Changes**

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated March 30, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting our office at 501-227-7400.

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## **Item 4 – Advisory Business**

Financial Management Inc. is owned by Harold F. Grubbs and has provided investment advisory services since 1982.

As of December 31, 2010, Financial Management Inc. managed \$61,467,542 on a discretionary basis and \$13,347,048 on a nondiscretionary basis.

As FMI clients, individuals and businesses receive the advice of an independent advisor. When we recommend changes in a financial strategy, we take time to make sure the client understands the potential rewards and risks and how those changes will help them achieve their goals. Most importantly, support is provided by a professional team who believe in a client-oriented, performance-driven approach to whatever level of service is being rendered on the client's behalf.

### **Asset Management Services**

FMI will work with the client to develop an investment policy statement, as necessary, and to evaluate the client's various financial needs including liquidity needs, investment goals and objectives, risk tolerance, and investment time horizon.

FMI works with each client to determine an investment strategy in coordination with the client's financial circumstances. FMI will regularly meet with the client to review investment performance, the client's asset allocation and financial circumstances.

Through our wealth management services, we analyze and suggest alternatives for using available resources to meet retirement or other financial goals. Our analysis may include assessing the impact of current and future projected tax, as well as related issues of risk, flexibility and costs, in order to seek the greatest benefit to the client or his/her estate.

### **Non-discretionary Consulting**

Many clients have assets in accounts such as profit sharing plans, 401(k) plans, or trusts, which the client cannot currently place under our management. We frequently advise clients, serving as managers in a non-discretionary, advisory capacity, on the investment of these funds within the available platform. Additionally, we will consider these funds as part of the asset allocation of the client's total financial resources where appropriate to do so.

### Tactical Allocation Services

Clients may retain FMI to engage in the management of a Tactical Strategy in clients' account(s). FMI offers its Tactical Strategy for clients who wish to attempt to lower volatility in times of severe market volatility by reducing or eliminating equity exposure at such times. FMI's tactical strategy will reduce or eliminate market exposure during periods in which the market is volatile or exhibits a downward trend based on technical analysis. FMI's tactical strategy also may utilize short positions in certain asset classes. FMI's Tactical Strategy is in addition to, not separate from, its Asset Management Services.

### **Pension Consulting and Fiduciary Services**

FMI also provides pension consulting and fiduciary advisory services. Within this service, FMI serves as the adviser to a pension plan trustee(s) or sponsor. FMI's services include a review of the plan goals and objectives, assistance with the plan's investment policy statement, and the recommendation to the plan of a diversified mix of investments that may be made available within the plan. FMI will further monitor the fees of the plan, the performance and construction of the investments within the plan, and will provide additional recommendations regarding the investments as necessary.

FMI may also agree to provide plan participant education services as a part of its pension consulting and fiduciary advisory services.

FMI may further agree to receive and exercise discretionary authority to select the plan investments made available to plans' participants. FMI will exercise discretionary authority to select the plans' investments according to the goals and investment objectives of the plan, including the construction of model portfolios made available to participants.

### **Business and Professional Consulting Services**

In addition to general asset management services, FMI can also provide assistance to businesses and professional practices to maximize profitability and improve financial stability, including advice concerning equity securities, warrants, corporate debt securities, certificates of deposit, municipal securities, investment company securities (variable annuities and mutual fund shares), U.S. Government securities, retirement planning, estate planning, business insurance and qualified pension plans.

FMI's business consulting activities encompass services addressing needs at all stages of the business life-cycle—Startup; Operations and Financial Stability; and Succession and Transition.

## Item 5 – Fees and Compensation

In certain circumstances, all fees, account minimums and their applications to family circumstances may be negotiable.

The following table represents the advisory fee for asset management, and pension consulting and fiduciary services, paid to FMI:

<b>Portfolio Value</b>	<b>Rate for Annual Fee Calculation</b>
First \$250,000	2.00% of Value
Next \$250,001 to \$500,000	1.00% of Value
Next \$500,001 to \$1,000,000	0.80% of Value
Next \$1,000,001 to \$2,000,000	0.60% of Value
Next \$2,000,001 to \$4,000,000	0.40% of Value
Over \$4,000,000	0.20% of Value

Fees for new client accounts are pro-rated based on the number of days remaining in the current quarter when the account is established. If an account is terminated prior to the close of a quarterly billing period, FMI will calculate and refund a pro-rata portion of the total fee based on the number of days remaining in the quarterly period.

FMI will charge an additional 0.20% annual fee if the client requests Tactical Allocation Services.

FMI will invoice the client directly for such fees using the following methodology. Fees will be charged quarterly in advance. For managed accounts, interim deposits and/or withdrawals of \$25,000 or more will result in an adjustment (additions for deposits; reductions for withdrawals) to the management fee for the quarter in which the activity occurred. The adjustment will be reflected on the invoice prepared at the next regular billing cycle. In the event of account closure or client termination, refunds, if any, will be based on days remaining in the billed period following the effective date of termination.

Client accounts structured in 529 educational plans and other accounts to which FMI provides non-discretionary consulting services on behalf of the client are generally charged an annual fee of 1.00% of assets under advisement. FMI will typically invoice clients for such fees on a quarterly basis in advance based on the value placed on the account by the account custodian.

Business consulting, individual consulting and planning services for individuals, and pension plan review services on an hourly basis. FMI may agree to charge clients for consultations at an hourly rate of \$150 per hour, payable at the time services are rendered.

A contract between FMI and a client may be terminated at any time upon the client's or FMI's 30-day, written notice.

All fees paid to FMI 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 mutual funds directly, without the services of FMI. In that case, the client would not receive the services provided by FMI 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.

FMI'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, and other third parties such as 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. Such charges, fees and commissions are exclusive of and in addition to FMI's fee, and FMI shall not receive any portion of these commissions, fees, and costs. See Item 12 for further information about brokerage practices.

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

FMI does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). All fees are calculated as described above and are not charged on the basis of income or capital gains or capital appreciation of the funds or any portion of the funds of an advisory client.

## **Item 7 – Types of Clients**

Financial Management, Inc. provides services to individuals, professionals, executives, trusts, small businesses and corporations. FMI also provides assessment and planning services to qualified pension, profit sharing and other corporate retirement plans.

FMI's minimums for its service offerings are as follows:

Asset Management Services:

\$2,000 minimum annual fee OR

\$100,000 minimum in assets under management

This account size and minimum fee may be negotiable under certain circumstances.

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

### *Methods of Analysis and Investment Strategy*

FMI develops and utilizes long-term investment strategies and endeavors to provide clients with the balance of growth versus risk consistent with their individual circumstances and financial situation. Our primary investment selection and management philosophy is built upon Strategic Asset Allocation which is based upon principles of the Nobel Prize-winning Modern Portfolio Theory. In addition, FMI incorporates academic research and studies in quantitative finance into the development of these strategies. FMI does not routinely analyze individual securities. Instead, for asset management accounts, FMI typically recommends exchange traded funds or mutual funds to clients. FMI may consider whether individual stock and bond positions are appropriate for a client's portfolio on a case-by-case basis, and recommend whether pre-existing positions should be maintained.

Investment strategies used to implement investment advice given to FMI clients may include long-term purchases, short-term purchases and use of margin transactions (margin transactions are recommended for cash management purposes only). Alternative investment strategies may be evaluated on a case-by-case basis; however, FMI works directly with the client in determining the merits of such investments based on the client's goals, objectives and risk/tolerance characteristics.



## *Risk of Loss*

### **Investing in securities involves risk of loss that clients should be prepared to bear.**

All investments present the risk of loss of principal – the risk that the value of securities (mutual funds, ETFs and individual bonds), when sold or otherwise disposed of, may be less than the price paid for the securities. Even when the value of the securities when sold is greater than the price paid, there is the risk that the appreciation will be less than inflation. In other words, the purchasing power of the proceeds may be less than the purchasing power of the original investment.

The mutual funds and ETFs utilized by FMI may include funds invested in domestic and international equities, including real estate investment trusts (REITs), corporate and government fixed income securities and commodities. Equity securities may include large capitalization, medium capitalization and small capitalization stocks. Mutual funds and ETF shares invested in fixed income securities are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings.

Certain funds utilized by FMI may contain international securities. Investing outside the United States involves additional risks, such as currency fluctuations, periods of illiquidity and price volatility. These risks may be greater with investments in developing countries.

More information about the risks of any particular market sector can be reviewed in representative mutual fund prospectuses managing assets within each applicable sector.

The Tactical Strategy is based on technical analysis of market conditions. Some of the factors analyzed are moving price averages, trend lines, support/resistance levels and relative strength. The Tactical Strategy is monitored through metaStock software on a daily basis. A diminished weighting of equities during certain periods may cause an investment account to underperform accounts similarly managed but without the use of Tactical Strategy.

### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of FMI or the integrity of FMI's management. FMI has no information applicable to this Item.

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

### **Life Insurance Services**

FMI is licensed as and operates as an insurance agency in conjunction with and as a complementary component of its asset management and investment advisory services. Licensed insurance agents of FMI may recommend and offer life insurance coverage—Permanent, Term and Universal Life—for clients desiring to implement their financial plan through the FMI agency. The agency receives standard insurance agency commissions on its traditional insurance sales activities. FMI does not charge a management fee on the cash values that may accumulate in these policies.

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

FMI has adopted a Code of Ethics expressing the firm's commitment to ethical conduct. FMI's Code of Ethics describes the firm's fiduciary duties and responsibilities to clients and sets forth FMI's practice of supervising the personal securities transactions of employees with access to client information. Individuals associated with FMI may buy or sell securities for their personal accounts identical or different than those recommended to clients. It is the expressed policy of FMI that no person employed by the firm shall prefer his or her own interest to that of an advisory client or make personal investment decisions based on investment decisions of advisory clients.

To supervise compliance with its Code of Ethics, FMI requires that anyone associated with this advisory practice with access to advisory recommendations provide annual securities holding reports and quarterly transaction reports to the firm. FMI also requires such access persons to receive approval from the Chief Compliance Officer prior to investing in any IPO's or private placements (limited offerings).

FMI's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information and protecting the confidentiality of client information. FMI 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 discipline.

FMI will provide a complete copy of its Code of Ethics to any client or prospective client upon request.

## **Item 12 – Brokerage Practices**

For FMI to provide investment management services to a client account, FMI recommends that clients open brokerage account(s) with Charles Schwab & Co, Inc. (“Schwab”), a FINRA member broker (hereafter referred to as “account custodian”), and requires that clients direct FMI to use Schwab as broker for clients’ securities transaction. FMI regularly reviews Schwab to ensure that its recommendation is consistent with its fiduciary duty. FMI considers the overall needs of its clients, the transparency and efficiency of the brokerage services provided, the fees and commissions charged by the broker, service capabilities, and FMI’s past experience with the broker. A trading platform such as Schwab is essential to FMI’s service arrangements and capabilities, and FMI may not accept management authority over client accounts who direct the use of other brokers. Schwab provides benefits that FMI would not receive if FMI did not offer investment advice (See the disclosure under Item 14 of this Brochure).

As FMI will not request the discretionary authority to determine the broker dealer to be used or the commission rates to be paid for securities transaction in client accounts, FMI will not have the authority to negotiate commissions among various brokers, seek the best possible pricing among various brokers, obtain volume discounts for transactions across multiple client accounts, and best execution may not be achieved. Not all investment advisers require clients to direct the use of specific brokers.

The limitation of executing transactions only through a client’s account custodian means that FMI does not seek best execution of securities transactions through multiple broker dealers by searching for the best possible securities pricing and transaction costs for each transaction.

To the extent that a client maintains an account with another custodian or FMI provides client advice with respect to other non-managed assets, client will be responsible generally for arranging specific transactions pursuant to the recommendations. Examples of such accounts may include a 401k plan, 529 college savings plan, or other holdings on a platform specific to such assets.

Clients of FMI may impose reasonable restrictions on FMI’s authority over their accounts.

## **Item 13 – Review of Accounts**

### **Reviews:**

Informal market and portfolio holding reviews are conducted by FMI on a continuing basis by matching client data with economic and investment performance data from a variety of

sources, including financial databases. Formal reviews are conducted with the client on a quarterly, semi-annual or annual basis, depending on the client's preferences, fee structure, and service class discussed below. The principle of management by exception is used and exception conditions, such as changes in a client's objectives or financial circumstances or sudden changes in the economic climate, generate the need for additional non-periodic reviews.

### **Reports:**

A detailed report is provided to each asset management or pension consulting client at the end of each calendar quarter. The report includes internal rates of return, after fees and trading costs, for each component of the client's portfolio, as well as for the total portfolio. Clients not receiving ongoing services will not receive regular reports.

While understanding that "one size" does not fit all, FMI attempts to balance client service with client need using internal client classifications. These classifications serve as "guidelines" that assist the staff of FMI in providing for client needs effectively, efficiently and consistently. FMI has observed over recent years that the guidelines, as established, are appropriate for most clients. We recognize the uniqueness of our individual clients and modify our client service approach, as necessary, to achieve the proper level of service for each client.

### **Service Guidelines**

Our "guideline" classifications are based on client group (household) values of assets under management which we believe is the best approach for initial recognition of client service needs. The classifications currently applied by FMI are as follows:

<u>Services Level</u>	<u>Account Values</u>	<u>(Minimum Recommended Frequency)</u>
A5	< \$100,001	Annual Portfolio Rebalance/Reallocation Annual Advisor/Client Conference
*****		
A4	≥ \$100,001 & < \$250,001	Semi-Annual Portfolio Rebalance/Reallocation Semi-Annual Advisor/Client Conference
*****		

A3	≥ \$250,001 & < \$500,001	Quarterly Portfolio Rebalance/Reallocation Semi-Annual Advisor/Client Conference
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A2	≥ \$500,001 & > \$1,000,001	Quarterly Portfolio Rebalance/Reallocation Quarterly Advisor/Client Conference
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A1	≥ \$1,000,001	Same as A2
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ERISA	All Values	Quarterly Portfolio Rebalance/Reallocation
Or other		Annual Advisor 404(c) Meetings w/Participants
Pension		Annual Advisor/Trustee Conference
Plans		

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## Item 14 – Client Referrals and Other Compensation

Schwab Advisor Services provides FMI with access to institutional trading and operations services, which are typically not available to the custodians’ retail investors. These services generally are available to independent investment advisors at no charge, or at no charge as long as assets placed with the custodians exceed a minimum value of \$10 million.

Custodians’ services include research, brokerage, custody, access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment. Custodians also make available to FMI other products and services that benefit FMI but may not benefit its clients’ accounts. Some of these other products and services may assist FMI in managing and administering clients’ accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of FMI fees from its clients’ accounts, and assist with back-office support, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of FMI accounts, including any accounts not maintained with the custodian providing the service. Custodians may also provide FMI with other services intended to help manage and further

develop its business. These services include consulting, publications and presentations on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, account custodians make available, arrange and/or pay for these types of services to FMI by independent third-parties. Account custodians may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to FMI. FMI does not however commit to any level of client account holdings at the account custodian or any level of transactions in client accounts in exchange for any of these services.

### **Item 15 – Custody**

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client’s investment assets. FMI urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

### **Item 16 – Investment Discretion**

For investment management services, FMI usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. This discretionary authority is established in an investment management agreement. In all cases, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

### **Item 17 – Voting Client Securities**

As a matter of firm policy and practice, FMI does not accept the authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. Clients will receive applicable proxies directly from the issuer of securities held in clients’ investment portfolios. The firm may offer assistance as to proxy matters upon a client’s request, but the client always retains the proxy voting responsibility.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about an adviser's financial condition. FMI has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.