

**Part 2A of Form ADV: *Firm Brochure***

**PENNINGTON FINANCIAL GROUP**

11246 GOLD EXPRESS DRIVE  
SUITE 102  
GOLD RIVER, CA 95670

Telephone: 916-635-5858  
Email: [mail@pfgadvisor.com](mailto:mail@pfgadvisor.com)  
Web Address: [pfgadvisor.com](http://pfgadvisor.com)

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This brochure provides information about the qualifications and business practices of PENNINGTON FINANCIAL GROUP. If you have any questions about the contents of this brochure, please contact us at 916-635-5858 or [mail@pfgadvisor.com](mailto:mail@pfgadvisor.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about PENNINGTON FINANCIAL GROUP 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. Our firm's CRD number is 108478.

**Item 2     Material Changes**

*Other than Material Changes:* *This change updates Item 4-Assets Under Management as of 09/30/2013. We will continue to inform you of any material changes and revision(s)/updates based on the nature of the updated information.*

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## **Item 4     Advisory Business**

PENNINGTON FINANCIAL GROUP (PFG) is an SEC-registered investment adviser with its principal place of business located in California. PFG began conducting business on August 1, 1991.

Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 5% or more of this company).

- Paul C. Pennington, President
- Patricia L. Olmstead, Corporate Secretary and Treasurer

### **ASSETS UNDER MANAGEMENT**

As of 09/30/13, we actively managed \$172,247,090 of client assets on a discretionary basis and \$197,676 of assets on a non-discretionary basis.

PFG offers the following advisory services to our clients:

### **INDIVIDUAL PORTFOLIO MANAGEMENT**

Our firm provides continuous asset management of client funds based on the individual needs of the client. Through personal discussions in which goals and objectives based on the client's particular circumstances are established, we develop the client's personal investment policy. We create and manage a portfolio based on that policy. During our data-gathering process, we determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. As appropriate, we may also review and discuss a client's prior investment history, as well as family composition and background.

Advisory accounts are managed on a discretionary basis within a predetermined risk tolerance established by the client. Account supervision is guided by the client's stated objectives (i.e., capital appreciation, growth, income, or growth and income), as well as tax considerations.

Clients may request reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

Once the client's portfolio has been established, we review the portfolio on an ongoing basis, and if necessary, rebalance the portfolio, based on the client's individual needs and risk tolerance.

Our investment recommendations are not limited to any specific product or service offered by any specific fund company, a broker-dealer or insurance company and may include advice regarding the following securities:

- Exchange-listed securities
- Securities traded over-the-counter
- Foreign issuer

- Warrant
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Municipal securities
- Variable life insurance
- Variable annuities
- Mutual fund share
- United States governmental securities
- Interests in partnerships investing in real estate
- Interests in partnerships investing in oil and gas interest
- Other

Because some types of investments involve certain additional degrees of risk, they will only be recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

## **FINANCIAL PLANNING**

We provide financial planning services. Financial planning is a comprehensive evaluation of a client's current and future financial state by using currently known variables to predict future cash flows, asset values and withdrawal plans. Through the financial planning process, all questions, information and analysis are considered as they impact and are impacted by the entire financial and life situation of the client. Clients purchasing this service receive a written report which provides the client with a detailed financial plan designed to assist the client to achieve his or her financial goals and objectives.

In general, the financial plan can address any or all of the following areas:

- **PERSONAL:** We review family records, budgeting, personal liability, estate information and financial goals.
- **TAX & CASH FLOW:** We analyze the client's income tax and spending and planning for past, current and future years; then illustrate the impact of various investments on the client's current income tax and future tax liability.
- **INVESTMENTS:** We analyze investment alternatives and their effect on the client's portfolio as they related to the client's goals and objectives.
- **INSURANCE:** We may review existing policies for life, health, disability, long-term care, liability, home and automobile.
- **RETIREMENT:** We analyze current strategies and investment plans to help the client achieve his or her retirement goals.
- **DEATH & DISABILITY:** We review the client's cash needs at death, income needs of surviving dependents, estate planning and disability income.
- **ESTATE:** We assist the client in assessing and developing long-term strategies, including as appropriate, living trusts, wills, review estate tax, powers of attorney, asset protection, and assisted living needs.

We gather required information through in-depth personal interviews. Information gathered includes the client's current financial status, tax status, future goals, returns objectives and attitudes towards risk. We carefully review documents supplied by the client that may include a questionnaire completed by the client and written reports. Should the client choose to implement the recommendations contained in the plan, where applicable, we suggest the client work closely with his/her attorney, accountant and insurance agent. Implementation of financial plan recommendations is entirely at the client's discretion.

We also provide general non-securities advice on topics that may include retirement, tax and budgetary planning, estate planning and business planning.

Typically the financial plan is presented to the client within three months of the contract date, provided that all information needed to prepare the financial plan has been promptly provided.

## Item 5 Fees and Compensation

### PORTFOLIO MANAGEMENT SERVICES FEES

The standard annualized fee for Portfolio Management Services will be charged as a percentage of assets under management, according to the following schedule:

Investment portfolios through Schwab Institutional

	<b><u>BALANCE:</u></b>		<b><u>PER QUARTER</u></b>	<b><u>ANNUAL</u></b>
<b>First</b>		<b>250,000</b>	<b>0.3750%</b>	<b>1.50%</b>
<b>Then</b>	<b>250,000</b>	<b>500,000</b>	<b>0.1875%</b>	<b>0.75%</b>
<b>Then</b>	<b>500,000</b>	<b>1,000,000</b>	<b>0.1500%</b>	<b>0.60%</b>
<b>Then</b>	<b>1,000,000</b>	<b>2,000,000</b>	<b>0.1125</b>	<b>0.45%</b>

Fees on all portfolios over 2 million dollars are negotiable.

The specific fees for each client are set forth in the "Schedule of Services," an attachment to the *Investment Advisory Agreement*.

Our fees are billed quarterly, 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. Fees will be debited from the account in accordance with the client authorization as disclosed and authorized in the Schedule of Services and as authorized in the custodian's application.

A minimum of **\$100,000.00** of assets under management is required for this service. This account minimum may be waived under certain circumstances. In addition, PFG may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee.

An initial portfolio establishment set-up fee of \$250 to \$2,500 will be charged per client portfolio. The fee will be based on the amount of time and complexity involved in establishing the portfolio. The administrative fee will be disclosed prior to portfolio establishment.

## **FINANCIAL PLANNING FEES**

PFG's fee schedule for work provided is predominately based on an hourly rate. Estimated total fees may be predetermined with the client and the planner. In some cases a flat fee is quoted to the client. Flat fees are charged for such standardized work as some retirement projections, and some tax planning schedules.

Fees for written financial plans may range from \$500 to \$5,000 depending on the complexity of the plan.

Fees for consultations are billed at the rate of \$200 per hour. Services provided by the Administrative staff are billed at \$75 per hour.

Flat fees for such work as investment policy statements, financial analysis, retirement projections, and tax projections may range from \$200 to \$2,500.

We may request a retainer upon completion of our initial fact-finding session with the client; however, advance payment will never exceed \$1,000. The balance is due upon completion of the plan or at intervals agreed upon by the client and the planner.

## **GENERAL INFORMATION**

***Termination of the Advisory Relationship:*** Each client signing an agreement shall be given five (5) business days to unconditionally rescind the agreement and receive a full refund of any and all fees collected. Once in effect, the agreement may be terminated by either party upon thirty (30) days prior written notice to the other party. Additionally, the agreement terminates unless all appropriate fees have been paid. Upon termination, any unearned management fees will be prorated from the date of termination and refunded to the client.

***Mutual Fund Fees:*** All fees paid to PFG for investment advisory services are separate and distinct from fees and expenses charged by mutual funds or ETF's to their shareholders. These fees and expenses are described in each fund's prospectus. PFG does not recommend or place funds that have sales charges or deferred sales charges. PFG primarily invests in institutional funds which are not available to the general public and cannot be purchased directly by retail investors.

Retail mutual funds or ETF's could be purchased by an investor without the services of PFG as the advisor. In that event, the investor would not be a PFG portfolio client and would not receive the ongoing management services provided by our firm. These services are designed to assist our clients in determining which funds or ETF's, and in which proportions, would be most appropriate given their unique financial condition, objectives, expectations, and tolerance for risk. Accordingly, the client should review both the fees charged by the funds and PFG to fully understand the total amount of fees to be paid by the client, and to thereby evaluate the benefit of the advisory services being provided.

***Wrap Fee Programs and Separately Managed Account Fees:*** PFG does not offer Wrap Fee Programs and Separately Managed Account Fees.

**Additional Fees and Expenses:** In addition to our advisory fees, clients are also responsible for the fees and expenses charged by custodians, including, but not limited to, any transaction charges, wire fees and account closures fees.

**ERISA Accounts:** PFG is deemed to be a fiduciary to advisory clients that are employee benefit plans pursuant to the Employee Retirement Income and Securities Act ("ERISA"). As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, PFG may only charge fees for investment advice about products for which our firm and/or our related persons do not receive any commissions or 12b-1 fees.

**Advisory Fees in General:** Clients should note that similar advisory services may (or may not) be available from other registered investment advisers for similar or lower fees.

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

PFG does not charge performance-based fees or for Side-By-Side Management fees.

## **Item 7 Types of Clients**

PFG provides advisory services to the following types of clients

- Individuals (other than high net worth individuals)
- High net worth individuals
- Pension and profit sharing plans (other than plan participants)
- Corporations or other businesses not listed above
- Bank or thrift institutions
- Trusts, estates, or charitable organizations

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

### **METHOD OF ANALYSIS**

We use the following method of analysis in formulating our investment advice and/or managing client assets:

**Strategic Asset Allocation.** Rather than focusing primarily on securities selection, we attempt to identify an appropriate ratio of equities, fixed income, and cash suitable to the client's investment goals and risk tolerance. We also consider the volatility and correlation of the various asset classes to one another in designing clients' portfolios.

A risk of strategic asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of equities, fixed income, and cash will change over time due to market movements and, if not corrected, will no longer be appropriate for the client's goals.

A benefit of strategic asset allocation is that the clients' participation in sharp decreases in a particular security, industry or market sector may be limited. Rebalancing a portfolio back to a client's strategic allocation may also be beneficial in enhancing the return of the overall portfolio.

**Risks for all forms of analysis.** Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

## **INVESTMENT STRATEGY**

We use a *long-term investment strategy* in managing client accounts that is appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons. This strategy is implemented with portfolios being individually designed to meet clients' income needs and financial goals, while also considering their tax situation.

**Long-term purchases:** We purchase securities, primarily no-load institutional mutual funds and exchange-traded funds (ETFs), in order to broadly diversify client's portfolios. This diversification helps reduce the risk of the portfolio by spreading it across many individual securities. These securities are purchased with the idea of holding them in the client's account for longer than a year. Typically, we employ this strategy in order to:

- gain exposure to various asset classes over time, regardless of the current projections for these classes
- participate in long-term appreciation of securities that may be undervalued in the short-term
- enable clients to gain favorable tax treatment when securities are sold at a gain

A risk of a long-term investment strategy is that by holding securities for a longer period of time we may not take advantage of short-term gains that could be profitable to our clients. Additionally, there is the risk that securities may decline in value before we make the decision to sell.

## **Item 9      Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

Our firm and our management personnel have no reportable disciplinary events to disclose.



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

Our firm and our related persons are not engaged in other financial industry activities and have no other industry affiliations, except for limited accounting services.

Our firm offers tax preparation services primarily to investment portfolio clients. Fees are determined by the complexity of the tax return and typically range from \$250 to \$1,500.

John F. Bauer is an investment advisor representative with PFG. John F. Bauer, CPA is an accounting firm offering tax preparation; tax planning, accounting and consulting services separately from PFG. John spends the majority of his time involved in these activities. John F. Bauer, CPA, the accounting firm, and PFG have no relationship or agreements with each other.

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

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

PFG and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code also provides for oversight, enforcement and record keeping provisions.

PFG's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by email sent to [mail@pfgadvisor.com](mailto:mail@pfgadvisor.com), or by calling us at 916-635-5858.

PFG and individuals associated with our firm are prohibited from engaging in principal transactions.

PFG and individuals associated with our firm are prohibited from engaging in agency cross transactions.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and/or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. 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.

We may aggregate our employee trades with client transactions where possible and when compliant with our duty to seek best execution for our clients. In these instances, participating clients will receive an average share price and transaction costs will be shared equally and on a pro-rata basis. In the instances where there is a partial fill of a particular batched order, we will allocate all purchases pro-rata, with each account paying the average price. Our employee accounts will be included in the pro-rata allocation.

As these situations represent actual or potential conflicts of interest to our clients, we have established the following policies and procedures for implementing our firm's Code of Ethics, to ensure our firm complies with its regulatory obligations and provides our clients and potential clients with full and fair disclosure of such conflicts of interest:

1. No principal or employee of our firm may put his or her own interest above the interest of an advisory client.
2. No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is a result of information received as a result of his or her employment unless the information is also available to the investing public.
3. It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account. This prevents such employees from benefiting from transactions placed on behalf of advisory accounts.
4. Our firm requires prior approval for any IPO or private placement investments by related persons of the firm.
5. We maintain a list of all reportable securities holdings for our firm and anyone associated with this advisory practice that has access to advisory recommendations ("access person"). These holdings are reviewed on a regular basis by our firm's Chief Compliance Officer or his/her designee.
6. We have established procedures for the maintenance of all required books and records.
7. Clients can decline to implement any advice rendered.
8. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
9. We require delivery and acknowledgement of the Code of Ethics by each supervised person of our firm.
10. We have established policies requiring the reporting of Code of Ethics violations to our senior management
11. Any individual who violates any of the above restrictions may be subject to termination.

## Item 12 Brokerage Practices

PFG does not have any formal soft-dollar arrangements and does not receive any soft-dollar benefits.

PFG requires that it be provided with written authority to determine the broker-dealer to use for client transactions and the transaction costs that will be charged to our clients for these transactions.

Clients must include any limitations on this discretionary authority in this written authority statement. Clients may change/amend these limitations as required. Such amendments must be provided to us in writing.

PFG will use block trading where possible and when advantageous to clients. Block trades permit the trading of aggregate blocks of securities composed of assets from multiple client accounts, so long as transaction costs are shared equally and on a pro-rated basis between all accounts included in any such block.

Block trading may allow us to execute equity trades in a timelier, more equitable manner, at an average share price. PFG will typically aggregate trades among clients whose accounts can be traded at a given broker, and generally will rotate or vary the order of brokers through which it places trades for clients on any particular day. PFG's block trading policy and procedures are as follows:

- Transactions for any client account may not be aggregated for execution if the practice is prohibited by or inconsistent with the client's advisory agreement with PFG, or our firm's order allocation policy.
- The trading desk in concert with the portfolio manager must determine that the purchase or sale of the particular security involved is appropriate for the client and consistent with the client's investment objectives and with any investment guidelines or restrictions applicable to the client's account.
- The portfolio manager must reasonably believe that the order aggregation will benefit, and will enable PFG in the aggregate order. This requires a good faith judgment at the time the order is placed for the execution. It does not mean that the determination made in advance of the transaction must always prove to have been correct in the light of a "20-20 hindsight" perspective. Best execution includes the duty to seek the best quality of execution, as well as the best net price.
- Prior to entry of an aggregated order, a written order ticket must be completed which identifies each client account participating in the order and the proposed allocation of the order, upon completion, to those clients.
- If the order cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day must be allocated pro rata among the participating client accounts in accordance with the initial order ticket or other written statement of allocation. However, adjustments to this pro rata allocation may be made to participating client accounts in accordance with the initial order ticket or other written statement of allocation. Furthermore, adjustments to this pro rata allocation may be made to avoid having odd amounts of shares held in any client account, or to avoid excessive ticket charges in smaller accounts.

- Generally, each client that participates in the aggregated order must do so at the average price for all separate transactions made to fill the order, and must share in the transaction fees on a pro rata basis in proportion to the client's participation. Under the client's agreement with the custodian/broker, transaction costs may be based on the number of shares traded for each client.
- If the order will be allocated in a manner other than that stated in the initial statement of allocation, a written explanation of the change must be provided to and approved by the Chief Compliance Officer no later than the morning following the execution of the aggregate trade.
- PFG's client account records separately reflect, for each account in which the aggregated transaction occurred, the securities which are held by, and bought and sold for, that account.
- Funds and securities for aggregated orders are clearly identified on PFG's records and to the custodians or other intermediaries handling the transactions, by the appropriate account numbers for each participating client.
- No client or account will be favored over another.

PFG requires that portfolio clients establish brokerage accounts with Schwab Institutional, a division of Charles Schwab & Co., Inc. ("Schwab"), member SIPC, an unaffiliated SEC-registered broker-dealer and FINRA member to maintain custody of clients' assets and to effect trades for their accounts. PFG is independently owned and operated and not affiliated with Schwab.

Schwab provides PFG with access to their institutional trading and custody services, which are typically not available to retail investors. These services generally are available to independent investment advisers on an unsolicited basis, at no charge to them so long as minimum thresholds of the adviser's clients' assets are maintained in accounts at Schwab Institutional. These services are not contingent upon our firm committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For our client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by account holders through transaction-related fees and for securities trades that are executed through Schwab.

Schwab Institutional also makes available to our firm other products and services that benefit PFG but may not directly benefit our clients' accounts. Many of these products and services may be used to service all or some substantial number of our client accounts, including accounts not maintained at Schwab.

Schwab products and services that assist us in managing and administering our clients' accounts include software and other technology that:

- provide access to client account data (such as trade confirmations and account statements)

- facilitate trade execution and allocate aggregated trade orders for multiple client accounts provide research, pricing and other market data
- facilitate payment of our fees from clients' account
- assist with back-office functions, recordkeeping and client reporting

Schwab Institutional also offers other services intended to help PFG manage and further develop our business enterprise. These services may include:

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

Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to PFG. Schwab Institutional 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 our firm. Schwab Institutional may also provide other benefits such as educational events or occasional business entertainment of our personnel. In evaluating whether to recommend or require that clients custody their assets at Schwab Institutional, we may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors we consider and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab Institutional, which may create a potential conflict of interest.

- PFG's receipt of Additional Services does not diminish our duty to act in the best interests of our clients, including seeking best execution of trades for client accounts.

## **Item 13    Review of Accounts**

### **FINANCIAL PLANNING SERVICES**

**REVIEWS:** While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Financial Planning clients after delivery of a completed financial plan, unless otherwise contracted for.

**REPORTS:** Financial Planning clients will receive a completed financial plan. Additional reports will not typically be provided unless otherwise contracted for.

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

It is PFG's policy not to engage solicitors or to pay related or non-related persons for referring potential clients to our firm.

It is PFG's policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

## **Item 15 Custody**

We previously disclosed in the "Fees and Compensation" section (Item 5) of this Brochure that our firm directly debits advisory fees from client accounts.

As part of this billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period.

Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement.

Our firm does not have actual or constructive custody of client accounts.

## **Item 16 Investment Discretion**

Clients may hire us to provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

- Our discretionary authority includes the ability to do the following without contacting the client:
- Determine the security to buy or sell; and/or
- Determine the amount of the security to buy or sell

Clients give us discretionary authority when they sign a contract with our firm referencing discretion with our firm, and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by providing us with written instructions.

## **Item 17 Voting Client Securities**

As a matter of firm policy, we do not vote proxies on behalf of clients. Therefore, although our firm may provide investment advisory services relative to client investment assets, clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets. Clients are responsible for instructing each custodian of the assets, to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets.

We may provide clients with consulting assistance regarding proxy issues if they contact us with questions at our principal place of business.

## **Item 18    Financial Information**

Under no circumstances do we require or solicit payment of fees in excess of \$1,000 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

PFG has not been the subject of a bankruptcy petition at any time.