

## **Firm Brochure**

(Part 2A of Form ADV)

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This brochure provides information about the qualifications and business practices of Taylor Stephens, Inc. If you have any questions about the contents of this brochure, please contact us at: 972-991-1181, or by email at: [mhaynes@taylorstephens.com](mailto:mhaynes@taylorstephens.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 TSI is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

March 31, 2011

## Material Changes

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### **Annual Update**

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

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### **Material Changes since the Last Update**

The U.S. Securities and Exchange Commission issued a final rule in July 2010 requiring advisers to provide a Firm Brochure in narrative “plain English” format. The new final rule specifies mandatory sections and organization.

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### **Full Brochure Available**

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: 972-991-1181 or by email at: [mhaynes@taylorstephensinc.com](mailto:mhaynes@taylorstephensinc.com)

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## Advisory Business

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### **Firm Description**

Taylor Stephens, Inc., ("TSI") was founded in 1990.

TSI provides discretionary portfolio management services to individuals, investment companies, pension and profit sharing plans, trusts, estates, charitable organizations, corporations as well as other business entities. Advice is provided through consultation with the client and may include: determination of financial objectives, identification of financial problems, cash flow management, tax planning, insurance review, investment management, education funding, retirement planning, and estate planning.

TSI is strictly a fee-only financial planning and investment management firm. The firm does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. The firm is not affiliated with entities that sell financial products or securities; however representatives of TSI are also registered representatives of S&P Investors, Inc., one of the broker/dealers used to execute recommended transactions. Thus, commissions may be received by advisory representatives in their capacity as registered representatives of S&P. This represents a conflict of interest to the extent representatives recommend a transaction to a Client which results in a commission being paid to the representative in addition to the advisory fee which may in turn result in higher overall transaction costs paid by Clients. Representatives will be required to factor such conflict into the rate of advisory fee that is negotiated with the Client.

No finder's fees are accepted.

Investment advice is provided, with the client making the final decision on investment selection. TSI does not act as a custodian of client assets. The client always maintains asset control. TSI places trades for clients under a limited power of attorney.

A written evaluation of each client's initial situation is provided to the client, often in the form of a net worth statement. Periodic reviews are also communicated to provide reminders of the specific courses of action that need to be taken. More frequent reviews occur but are not necessarily communicated to the client unless immediate changes are recommended.

Other professionals (e.g., lawyers, accountants, insurance agents, etc.) are engaged directly by the client on an as-needed basis. Conflicts of interest will be disclosed to the client in the unlikely event they should occur.

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## **Principal Owners**

John Taylor is a 50% stockholder. Brinson Partner Ltd is a 50% stockholder.

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## **Types of Advisory Services**

TSI provides investment supervisory services, also known as asset management services; manages investment advisory accounts not involving investment supervisory services; furnishes investment advice through consultations; issues periodicals about securities by subscription; issues special reports about securities; and issues, charts, graphs, formulas, or other devices which clients may use to evaluate securities.

On more than an occasional basis, TSI furnishes advice to clients on matters not involving securities, such as financial planning matters, taxation issues, and trust services that often include estate planning.

TSI provides a timing service (*explain*).

As of March 31, 2011, TSI manages approximately \$64,926,827 in assets for approximately 357 clients. Approximately \$64,926,827 is managed on a discretionary basis, and \$0 is managed on a non-discretionary basis.

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## **Tailored Relationships**

The goals and objectives for each client are documented in our client relationship management system. Clients may impose restrictions on investing in certain securities or types of securities.

Agreements may not be assigned without client consent.

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## **Types of Agreements**

The following agreements define the typical client relationships.

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### **Advisory Agreement**

Most clients choose to have TSI manage their assets in order to obtain ongoing in-depth advice and life planning. All aspects of the client's financial affairs are reviewed, including those of their children. Realistic and measurable goals are set and objectives to reach those goals are defined. As goals and objectives change over time, suggestions are made and implemented on an ongoing basis.

The scope of work and fee for an Advisory Agreement is provided to the client in writing prior to the start of the relationship and may be negotiated.

Clients are charged investment advisory fees which are scaled according to the value of assets under management per the following schedule:

Asset Management for Client Accounts with Aggregate Value Exceeding \$500,000

The minimum annual fee is \$ 25 per calendar quarter or .25% of assets under management and again is *NEGOTIABLE*.

Reduced fees are charged for bonds of .125% of assets under management.

A \$10.00 fee per trade is assessed as a commission or fee.

Current client relationships may exist where the fees are higher or lower than the fee schedule above.

Asset Management for Client Accounts with Aggregate Value Less than \$500,000

The minimum annual fee is \$25 per calendar quarter or .375% of the first \$50,000; .312% of the next \$50,000, and .25% thereafter of assets under management. *Fees are NEGOTIABLE.*

A \$10.00 fee per trade is assessed as a commission or fee.

For purposes of calculating the average daily balance, values are accumulated on each day of the period where an asset is non-zero. The accumulation is then divided by either the total number of days the asset's units balances was non-zero in the period or by the total number of days in the report date range. If the asset is held less than a whole period, the accumulated value is then prorated by multiplying the number of days in the period the asset was held divided by the total number of days in the period. The average asset balances are then summed to obtain an average daily balance for the portfolio. Prices of securities are typically based upon the closing price of the exchange in which the security is traded. However, for thinly traded securities, TSI will use the most current bid price.

Although the Advisory Agreement is an ongoing agreement and constant adjustments are required, the length of service to the client is at the client's discretion. The client or the investment manager may terminate an Agreement by written notice to the other party. At termination, fees will be billed on a pro rata basis for the portion of the quarter completed. The portfolio value at the completion of the prior full billing quarter is used as the basis for the fee computation, adjusted for the number of days during the billing quarter prior to termination.



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### **Hourly Planning Engagements**

TSI may provide hourly planning services for clients who need advice on a limited scope of work if requested by the client. The hourly rate for limited scope engagements is \$250/hr.

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### **Asset Management**

For any portfolios which include assets invested in investment company funds or held in money market funds, the investment company or money market funds may charge management fees for all funds invested. Any fees charged by the investment company or money market funds are in addition to any advisory fees charged by TSI.

Assets may be invested in no-load or low-load mutual funds and exchange-traded funds. Stocks and bonds may be purchased or sold through a brokerage account when appropriate. Depending upon the Client needs, objectives and trading strategies, TSI will recommend to Clients that either S&P Investors, Inc. or Interactive Brokers, Inc. be used for execution of trades; however, Clients may request that trades be executed with any institution or broker/dealer. The brokerage firm(s) will charge a fee for stock and bond trades. TSI does not receive any compensation, in any form, from fund companies.

TSI will charge a \$20.00 fee per trade to cover its administrative costs in the event trades are executed away from S&P Investors, Inc. or Interactive Brokers, Inc. Clients may request trade executions through other institutions in order to obtain lower transaction costs and in such instances, it is intended that TSI's administrative costs will not create a higher margin of overall costs to the Client.

Investments may also include: equities (stocks), warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities (etf's and mutual funds shares), U. S. government securities, options contracts, futures contracts, and interests in partnerships.

Initial public offerings (IPOs) are not available through TSI.

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### **Termination of Agreement**

A Client may terminate the Advisory Agreement within five (5) days from the date that the Advisory Agreement is entered into by notifying TSI in writing and all fees, if any, paid by the client will be refunded. Thereafter, a Client may terminate the Advisory Agreement at any time upon five (5) days written notice to TSI, and paying the rate for the time spent on the investment advisory engagement prior to notification of termination. If the client made an advance payment, TSI will refund any unearned portion of the advance payment.

TSl may terminate the Advisory Agreement at any time upon five (5) days written notice to the client in writing. If the client made an advance payment, TSl will refund any unearned portion of the advance payment.

## Fees and Compensation

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### Description

TSl bases its fees on a percentage of assets under management, hourly charges, fixed fees (not including subscription fees), and commissions.

Fees are *NEGOTIABLE*.

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### Fee Billing

Investment advisory fees are billed monthly, in *ARREARS*, meaning that we invoice you *AFTER* the one-month billing period has *ENDED*. Payment in full is expected upon invoice presentation but no later than thirty (30) days of the date of the invoice. Fees are usually deducted from a designated client account to facilitate billing. The client must consent in advance to direct debiting of their investment account. Clients may alternatively elect to be invoiced directly for advisory fees due to TSl.

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### Other Fees

Custodians may charge transaction fees on purchases or sales of certain mutual funds and exchange-traded funds. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security.

TSl will charge a \$20.00 fee per trade to cover its administrative costs in the event trades are executed away from S&P Investors, Inc. or Interactive Brokers, Inc. Clients may request trade executions through other institutions in order to obtain lower transaction costs and in such instances, it is intended that TSl's administrative costs will not create a higher margin of overall costs to the Client.

TSl, in its sole discretion, may waive its minimum fee and/or charge a lesser investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.).

New Advisory Service Agreement fees are calculated on a formula basis and adjusted for complexity of individual situations. *The formula is based on gross income, gross assets and other financial considerations.*

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### **Expense Ratios**

Mutual funds generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 0.50 means that the mutual fund company charges 0.5% for their services. These fees are in addition to the fees paid by you to TSI.

Performance figures quoted by mutual fund companies in various publications are after their fees have been deducted.

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### **Past Due Accounts and Termination of Agreement**

TSI reserves the right to stop work on any account that is more than 30 days overdue. In addition, TSI reserves the right to terminate any financial planning engagement where a client has willfully concealed or has refused to provide pertinent information about financial situations when necessary and appropriate, in TSI's judgment, to providing proper financial advice. Any unused portion of fees collected in advance will be refunded within 30 days.

## **Performance-Based Fees**

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### **Sharing of Capital Gains**

Fees are not based on a share of the capital gains or capital appreciation of managed securities.

TSI does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

## **Types of Clients**

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### **Description**

TSI generally provides investment advice to individuals, banks or thrift institutions, investment companies, pension and profit sharing plans, trusts, estates, or charitable organizations and corporations or other business entities.

Client relationships vary in scope and length of service.

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### **Account Minimums**

The minimum account size is typically \$250,000 of assets under management, which equates to an annual fee of \$3,125.00. However, this minimum may be waived at discretion of TSI.

If a minimum is imposed, when an account falls below the \$250,000 threshold in value, the minimum annual fee would be charged.

TSI has the discretion to waive the account minimum. Accounts of less than \$250,000 may be set up when the client and the advisor anticipate the client will add additional funds to the account(s) or for other business relationship purposes. Other exceptions may also apply to employees of TSI and their relatives, or relatives of existing clients.

Clients receiving ongoing asset management services will be assessed a \$25 per quarter minimum annual fee. Clients with assets below the minimum account size may pay a higher percentage rate on their annual fees than the fees paid by clients with greater assets under management.

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

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### **Methods of Analysis**

Security analysis methods may include charting, fundamental analysis, technical analysis, and cyclical analysis.

The main sources of information include financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, , annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases.

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### **Investment Strategies**

The primary investment strategy used on client accounts is strategic asset allocation. Portfolios are globally diversified to control the risk associated with traditional markets.

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time.

Other strategies may include long-term purchases, short-term purchases, trading, short sales, margin transactions, and option writing (including covered options, uncovered options or spreading strategies).

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### **Risk of Loss**

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.

- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

## Disciplinary Information

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### Legal and Disciplinary

The firm itself has not been involved in legal or disciplinary events related to past or present investment clients. However, one of the principal officers of the firm, William K. Brinson had a default judgment entered against him in the amount of \$2,337, 611.07 in Dallas County District Court. The plaintiff's (David Michael Jenkins and John Valvoord) sued William K Brinson in his individual and capacity as trustee and alleged various causes of action.

## Other Financial Industry Activities and Affiliations

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### Financial Industry Activities

TSI itself is not registered as a securities broker-dealer, or a futures commission merchant, commodity pool operator or commodity trading advisor.

### Affiliations

TSI has arrangements that are material to its advisory or its clients with a related person who is an insurance agency. More specifically, one of the principal officers, William K. Brinson, is engaged in other activities involving insurance as a field underwriter and is also a registered representative of S&P Investors, Inc., a FINRA registered broker dealer.

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

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### Code of Ethics

The employees of TSI have committed to a Code of Ethics that is available for review by clients and prospective clients upon request. The firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

### Participation or Interest in Client Transactions

TSI and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades. In the unlikely event that interests of a TSI and/or one of its representatives' accounts may correspond with an advisory Client's interests, TSI will make full disclosure to such Client immediately. Employees are required to comply with the provisions of the *TSI Written Supervisory Procedures*.

### Personal Trading

The Chief Compliance Officer of TSI is William K Brinson. He reviews all employee trades each day via review of daily trade blotters.. His trades are reviewed by John Taylor, Chairman Emeritus. The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm receive preferential treatment. Since most employee trades are small mutual fund trades or exchange-traded fund trades, the trades do not affect the securities markets.

# Brokerage Practices

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## Selecting Brokerage Firms

TSI does not have any affiliation with product sales firms.

In most cases, TSI will recommend that either S&P Investors, Inc. or Interactive Brokers, Inc. execute trades recommended to Clients. TSI generally will seek competitive commission rates through S&P and Interactive Brokers, but will not necessarily attempt to attain the lowest possible commission for transactions. Commissions and transaction costs may be higher through S&P and Interactive Brokers and clients will in some cases pay higher commissions and transaction costs for executing transactions through S&P or Interactive Brokers vs. through other executing broker/dealers, and in most cases, executing those same transactions through a discount broker/dealer. Specific custodian recommendations are made to Clients based on their need for such services. TSI recommends custodians based on the proven integrity and financial responsibility of the firm and the best execution of orders at reasonable commission rates.

TSI *DOES* receive fees per the terms of the Fully Disclosed Clearing Agreements from these arrangements.

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## Best Execution

TSI reviews the execution of trades at each custodian periodically. Transaction costs charged by S&P and Interactive Brokers is also reviewed on a periodic basis. Although the commissions and/or transaction costs paid by Clients shall comply with TSI's duty to obtain best execution, a Client may pay a commission that is higher than that charged by another qualified broker/dealer if TSI determines in good faith, that the commission is reasonable in related to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking in to consideration the full range of a broker/dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness.

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## Soft Dollars

TSI does not have any soft dollar arrangements.

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## Order Aggregation

Trade allocations are typically executed in a firm wash account at an average price basis and then allocated to individual client accounts. On occasion, TSI may allocate trades directly to individual Client accounts rather than through the firm wash account for execution purposes. Such situations may include but are not limited to transactions for thinly traded stock positions, options

prohibited, newly established accounts, special needs of a client, or as directed by a client.

## **Review of Accounts**

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### **Periodic Reviews**

Account reviews are performed quarterly or otherwise by William K. Brinson, President and John A. Taylor, Director Emeritus. Account reviews are performed more frequently when market conditions dictate.

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### **Review Triggers**

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's own situation.

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### **Regular Reports**

Account reviewers consider the client's current security positions and the likelihood that the performance of each security will contribute to the investment objectives of the client.

Clients receive periodic communications (statements) regarding the status of their account(s) on at least an annual basis. Moreover, William K Brinson, President/CCO of TSI, publishes a monthly newsletter regarding general economic and market news which is distributed to all firm clients. Quarterly performance reports are also provided to clients.

## **Client Referrals and Other Compensation**

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### **Incoming Referrals**

TSI has been fortunate to receive many client referrals over the years. The referrals came from current clients, estate planning attorneys, accountants, employees, personal friends of employees and other similar sources. The firm does not compensate referring parties for these referrals.

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### **Referrals Out**

TSI does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

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### **Other Compensation**

Investment advisory representatives are also registered representatives with S&P Investors, Inc. In such capacity, they may sell securities through S&P and receive commissions as a result of such transactions as may have been negotiated between TSI and S&P on a fully disclosed basis. These commissions and/or transaction costs are costs to Clients exclusive of and in



addition to TSI's advisory fee. This presents a conflict of interest to the extent a representative recommend that a Client invest in a security which results in a commission being paid to the representative in addition to the investment advisory fee paid to TSI, which may in turn a Client paying higher overall transaction costs.

## **Custody**

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### **Account Statements**

All assets are held at qualified custodians, which means the custodians provide account statements directly to clients at their address of record at least quarterly.

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### **Performance Reports**

Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided on a quarterly basis by TSI.

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### **Other Reports**

William K Brinson, President/CCO of TSI, publishes a monthly newsletter regarding general economic and market news which is distributed to all firm clients. Quarterly performance reports are also provided to clients.

## **Investment Discretion**

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### **Discretionary Authority for Trading**

TSI accepts discretionary authority to manage securities accounts on behalf of clients. TSI has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. However, TSI consults with the client prior to each trade to obtain concurrence if a blanket trading authorization has not been given.

The client approves the custodian to be used and the commission rates paid to the custodian. TSI does not receive any portion of the transaction fees or commissions paid by the client to the custodian on certain trades.

Discretionary trading authority facilitates placing trades in your accounts on your behalf so that we may promptly implement the investment policy that you have approved in writing.

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### **Limited Power of Attorney**

A limited power of attorney is a trading authorization for this purpose. You sign a limited power of attorney so that we may execute the trades that you have approved.

## Voting Client Securities

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### Proxy Votes

TSI does not vote proxies on securities. Clients are expected to vote their own proxies.

When assistance on voting proxies is requested, TSI will provide recommendations to the Client. If a conflict of interest exists, it will be disclosed to the Client.

## Financial Information

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### Financial Condition

TSI does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because TSI does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than \$1,200 per client, and six months or more in advance.

## Business Continuity Plan

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### General

TSI has a Business Continuity Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications, services or key people.

### Disasters

The Business Continuity Plan covers natural disasters such as snow storms, hurricanes, tornados, and flooding. The Plan covers man-made disasters such as loss of electrical power, loss of water pressure, fire, bomb threat, nuclear emergency, chemical event, biological event, T-1 communications line outage, Internet outage, railway accident and aircraft accident. Electronic files are backed up daily and archived offsite.

### Alternate Offices

Alternate offices are identified to support ongoing operations in the event the main office is unavailable. It is our intention to contact all clients within five days of a disaster that dictates moving our office to an alternate location.

### Loss of Key Personnel

TSI has a Stock Redemption Agreement which addresses ownership of the firm in the event William K Brinson becomes seriously disabled or otherwise unable to perform his job functions.

# Information Security Program

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## Information Security

TSI maintains an information security program to reduce the risk that your personal and confidential information may be breached.

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## Privacy Notice

TSI is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of nonpublic information that we collect from you may include information about your personal finances, information about your health to the extent that it is needed for the financial planning process, information about transactions between you and third parties, and information from consumer reporting agencies, e.g., credit reports. We use this information to help you meet your personal financial goals.

With your permission, we disclose limited information to attorneys, accountants, and mortgage lenders with whom you have established a relationship. You may opt out from our sharing information with these nonaffiliated third parties by notifying us at any time by telephone, mail, fax, email, or in person. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf.

We maintain a secure office to ensure that your information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment.

We do not provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our Company records and your personal records as permitted by law.

Personally identifiable information about you will be maintained while you are a client, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our privacy policy is expected to change. We are required by law to deliver this *Privacy Notice* to you annually, in writing.