

# JMG Financial Group, Ltd.

SEC File Number: 801 – 23526

# JMG Financial Group, Ltd.

Brochure

Dated 12/21/2017

## Principal Office Location

Contact: David S. Morgan, Chief Compliance Officer

2001 Butterfield Road, Suite 1400

Downers Grove, Illinois 60515

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

## Branch Office Location

155 North Wacker Drive, Suite 4250

Chicago, Illinois 60606

**This brochure provides information about the qualifications and business practices of JMG Financial Group, Ltd. (the “Registrant”). If you have any questions about the contents of this brochure, please contact us at (630) 571-5252 or [david@jmgfin.com](mailto:david@jmgfin.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 JMG Financial Group, Ltd. is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**References herein to JMG Financial Group, Ltd. as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.**

## **Item 2           Material Changes**

There have been no material changes made to the Registrant's disclosure statement since its last amendment filing on September 26, 2017. Registrant is amending its investment advisory fee schedule and making its ERISA/IRC fiduciary acknowledgement with this filing. **Registrant's Chief Compliance Officer, David S. Morgan, remains available to address any questions regarding this Part 2A.**

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#### Item 4            Advisory Business

- A. JMG Financial Group, Ltd. (the “Registrant”) is a corporation formed on March 20, 1984 in the State of Delaware. The Registrant became registered as an Investment Adviser Firm in February 1985. Anthony D. Cecchini is the Registrant’s Chief Executive Officer.
- B. As discussed below, the Registrant offers to its clients (individuals, trusts, pension and profit sharing plans, business entities, etc.) investment advisory services, and, to the extent specifically requested by a client, financial advisory and related consulting services, investment consulting services, and retirement consulting services.

#### INVESTMENT ADVISORY SERVICES

The client can determine to engage the Registrant to provide discretionary and/or non-discretionary investment advisory services on a *fee-only* basis. The Registrant’s annual investment advisory fee is based upon a percentage (%) of the market value of the assets placed under the Registrant’s management, is negotiable, and varies upon the scope of and type of services to be provided as follows:

#### Non-Sub-Advised and Sub-Advised Portfolios (*exclusive of sub-advisors fees*)\*

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
First \$2,000,000	1.000%
Next \$2,000,000	0.750%
Next \$2,000,000	0.600%
Next \$14,000,000	0.500%
Over \$20,000,000	0.350%

\*PLEASE NOTE: Generally, for new clients that engage Registrant subsequent to December 31, 2017. This fee schedule does not apply to existing clients of Registrant (see Grandfathered Fee Schedules disclosure below), nor does the fee schedule apply to Registrant’s other advisory services including financial advisory and consulting services, or services provided under the Schwab Advisor Network® fee schedule below. Rather, as discussed below, such services are available on a stand-alone, separate fee basis, per the terms and conditions of a separate written agreement.

Non-Sub-Advised portfolios (direct management by Registrant), Sub-Advised Fixed Income portfolios, and Sub-Advised Equity portfolios are aggregated when applying the fee percentages described above.

A separate sub-advisor fee, in addition to Registrant’s fee, will be charged for Sub-Advised Fixed Income portfolios and Sub-Advised Equity portfolios. Unless otherwise specifically indicated to the contrary, the annual fee charged by the designated sub-advisor (generally ranging between 0.300% and 0.750% depending upon the type of management services required and the market value of the assets to be managed), is **exclusive** of, and in addition to, Registrant’s investment advisory fee.

#### **Alternative Investments (*exclusive of charges imposed by the alternative investment, for example management fees*)**

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
Less than \$10,000,000	1.000%
At least \$10,000,000	0.900%

Although Registrant requires a minimum account size of \$1,000,000 when Registrant is providing only investment advisory services to a client, Registrant may accept an amount less than the minimum. Registrant, in its sole discretion, may reduce its account minimum. Registrant may group related client accounts for the purpose of achieving the minimum account size requirement. Registrant's investment advisory fee is negotiable, therefore, Registrant may charge a lesser investment advisory fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

**Grandfathered Fee Schedules.** Registrant's investment advisory fee schedule may be amended from time to time. Many clients have been, and will continue to be, grandfathered under fee schedules that preceded an amended fee schedule. As a result, Registrant's clients could be subject to different investment advisory fee schedules than those set forth above as well as below in Item 5. **ANY QUESTIONS: Registrant's Chief Compliance Officer, David S. Morgan, remains available to address any questions regarding Registrant's service offerings and fees.**

#### **FINANCIAL ADVISORY AND CONSULTING SERVICES (STAND-ALONE)**

To the extent specifically requested by a client, the Registrant *may* determine to provide financial advisory and related consulting services (including investment consulting services, retirement planning, cash flow planning, estate consulting services (not involving legal or accounting advice/services), and budget analysis and review, etc.) on a stand-alone separate fee basis. Registrant's financial advisory and consulting fees are negotiable, but generally range from \$10,000 to \$50,000 on a fixed fee basis, and from \$100 to \$600 on an hourly rate basis, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s). Long term clients of Registrant may continue to be grandfathered under financial advisory fee schedules which fall outside the general fee range described above. Prior to engaging the Registrant to provide financial advisory or consulting services, clients are generally required to enter into an *Advisory Agreement* with Registrant setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the portion of the fee that is due from the client prior to Registrant commencing services. If requested by the client, Registrant may recommend the services of other professionals for implementation purposes. Certain professionals recommended by Registrant are clients of the Registrant. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from the Registrant. **Please Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. **Please Also Note:** It remains the client's responsibility to promptly notify the Registrant, in writing, if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Registrant's previous recommendations and/or services.

#### ***Combined Investment Advisory and Financial Advisory Services***

Generally, this fee arrangement is unique to long term clients of Registrant that continue to be grandfathered. Under this fee arrangement, the client can determine to engage the Registrant to provide discretionary and/or non-discretionary investment advisory services and financial advisory and consulting services (including investment consulting services, retirement planning, cash flow planning, estate consulting services (not involving legal or accounting advice/services), and budget analysis and review, etc.) and pay a combined fee

for both services. The Registrant's annual combined investment advisory and financial advisory fee is based upon a percentage (%) of the market value of the assets set forth on the exhibit to the *Advisory Agreement* and generally ranges between 0.30% and 1.00%.

Alternatively, Registrant's annual combined investment advisory and financial advisory fee may be a fixed fee.

The Registrant's annual combined investment advisory and financial advisory fee is negotiable and generally subject to a minimum annual fee of \$20,000. To the extent assets are directed to a sub-advisor, a separate fee (as described below), in addition to the combined fee, will be charged to the client for the services of the sub-advisor.

## **RETIREMENT CONSULTING SERVICES**

The Registrant also provides non-discretionary pension consulting services, pursuant to which it assists plan sponsors of trustee and participant directed retirement plans with the selection and/or monitoring of investment alternatives (generally open-end mutual funds). Plan participants shall choose the investments for their individual retirement accounts. In addition, to the extent requested by the plan sponsor, the Registrant may also provide participant education designed to assist participants in identifying the appropriate investment strategy for their retirement plan accounts. The terms and conditions of the engagement shall generally be set forth in the *Investment Consulting Services Agreement* between the Registrant and the plan sponsor.

The Registrant's annual consulting fixed fee arrangements are negotiable depending on the time and complexity of the engagement. The Registrant's annual consulting fees based upon a percentage of the market value of the plan's assets are negotiable and generally range between 0.35% and 1.00% of the market value of the plan's assets. Generally, Registrant's annual consulting fee shall be calculated and paid quarterly, in advance. Consulting fees based on a percentage of the market value of the plan's assets are based upon the market value of the plan's assets on the last day of the previous quarter.

## **SCHWAB ADVISOR NETWORK® (Combined Services)**

Registrant receives client referrals from Charles Schwab & Co., Inc. through Registrant's participation in the Schwab Advisor Network® ("the Service"). See a description of the Service in Item 12 and Item 14 below.

Registrant provides clients referred through the Service discretionary and/or non-discretionary investment advisory services and financial advisory and consulting services (including investment consulting services, retirement planning, cash flow planning, estate consulting services (not involving legal or accounting advice/services), and budget analysis and review, etc.) for a combined fee for both services. The Registrant's annual combined investment advisory and financial advisory fee is based upon a percentage (%) of the market value of the assets placed under Registrant's management, is negotiable, and varies upon the scope of and type of services to be provided as follows:

### **Non-Sub-Advised and Sub-Advised Portfolios (*exclusive of sub-advisors fees*)**

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
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To the extent assets are directed to a sub-advisor, a separate fee (as described below), in addition to the combined fee, will be charged to the client for the services of the sub-advisor.

***Alternative Investments (exclusive of charges imposed by the alternative investment, for example management fees)***

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
Less than \$10,000,000	1.000%
At least \$10,000,000	0.900%

Registrant requires a minimum account size of \$500,000 for clients referred through Registrant's participation in the Service. For clients referred through the Service with an account size greater than \$4 million, Registrant will provide income tax preparation services for no additional fee. Registrant may charge an additional fee for providing income tax preparation services to clients with an account size less than \$4 million.

**TAX CONSULTING AND PREPARATION SERVICES**

Registrant may provide its clients with tax consulting and preparation services, on either a mutually agreed upon fixed fee or hourly rate basis.

**MISCELLANEOUS**

**Financial Advisory and Related Consulting - Implementation.** To the extent requested by the client, the Registrant *may* determine to provide financial advisory and related consulting services (including investment consulting services, retirement planning, cash flow planning, estate consulting services (not involving legal or accounting advice/services), and budget analysis and review, etc.). Neither the Registrant, nor any of its representatives, serves as an attorney, accountant, or licensed insurance agent, and no portion of the Registrant's services should be construed as same. To the extent requested by a client, the Registrant may recommend the services of other professionals for certain implementation purposes (i.e., attorneys, accountants, licensed insurance agents, mortgage brokers, etc.), including professionals that are clients of the Registrant as discussed below. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from the Registrant. **Please Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. **Please Also Note:** It remains the client's responsibility to promptly notify the Registrant, in writing, if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Registrant's previous recommendations and/or services.

**Please Note: Non-Discretionary Service Limitations.** Clients that determine to engage the Registrant on a non-discretionary investment advisory basis **must be willing to accept** that the Registrant cannot effect any account transactions without obtaining prior oral consent to any such transaction(s) from the client. Thus, in the event of a market correction during which the client is unavailable, the Registrant will be unable to effect any account

transactions (as it would for its discretionary clients) without first obtaining the client's oral consent.

**Sub-Advisory Arrangements.** The Registrant may engage sub-advisors for the purpose of assisting the Registrant with the management of its client accounts. The sub-advisor(s) shall have discretionary authority for the day-to-day management of the assets that are allocated to it by the Registrant. The sub-advisor shall continue in such capacity until such arrangement is terminated or modified by the Registrant. Unless otherwise specifically indicated to the contrary, the annual fee charged by the designated sub-advisor (generally ranging between 0.300% and 0.750% depending upon the type of management services required and the market value of the assets to be managed), is **exclusive** of, and in addition to, Registrant's investment advisory fee. Factors which Registrant shall consider in engaging sub-advisors include the client's stated investment objective(s), and the sub-advisor's management style, performance, reputation, financial strength, reporting, pricing, and research. **The Registrant's Chief Compliance Officer, David S. Morgan, remains available to address any questions concerning the Registrant's sub-advisory arrangements.**

**Private Investment Funds.** Registrant may provide investment advice regarding private investment funds. The Registrant's role relative to the private investment funds shall be limited to its initial and ongoing due diligence and investment monitoring services. If a client determines to become a private fund investor, the amount of assets invested in the fund(s) shall be included as part of "assets under management" for purposes of Registrant calculating its investment advisory fee. Registrant's clients are under absolutely no obligation to consider or make an investment in a private investment fund(s).

**Please Note:** Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Unlike liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

**Please Also Note: Valuation.** In the event that the Registrant references private investment funds owned by the client on any supplemental account reports prepared by the Registrant, the value(s) for all private investment funds owned by the client shall reflect the most recent valuation provided by the fund sponsor. If no subsequent valuation post-purchase is provided by the fund sponsor, then the valuation shall reflect the initial purchase price (and/or a value as of a previous date), or the current value(s) (either the initial purchase price and/or the most recent valuation provided by the fund sponsor). If the valuation reflects the initial purchase price (and/or a value as of a previous date), the current value(s) (to the extent ascertainable) could be **significantly more or less** than the original purchase price. The client's advisory fee shall be based upon reflected fund value(s).

**Security Capital Research and Management Incorporated.** Registrant has entered into a sub-advisory agreement with Security Capital Research and Management Incorporated (“Security Capital”), an SEC registered investment adviser, pursuant to which Security Capital performs sub-advisory services with respect to securities portfolios for certain of Registrant’s clients. Registrant has also entered into an *Advisory Agreement* with certain employees of Security Capital, pursuant to which Registrant provides advisory services to these employees and charges advisory fees as described herein. Accordingly, this arrangement presents a ***conflict of interest***, such that Registrant could be deemed to have an incentive to recommend and/or select Security Capital as a sub-advisor for its client accounts. A client can instruct the Registrant, in writing, not to allocate any portion of the client’s assets to Security Capital. **The Registrant’s Chief Compliance Officer, David S. Morgan, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

**Recommended Professionals.** Registrant may recommend the services of other professionals for certain implementation purposes (i.e., attorneys, accountants, licensed insurance agents, mortgage brokers, etc.), including professionals that are clients of the Registrant. This arrangement presents a conflict of interest, such that Registrant could be deemed to have an incentive to recommend these client professionals to Registrant’s other clients. In addition, Registrant has entered into a sub-lease agreement with an unaffiliated law firm to share office space at Registrant’s principal office location, pursuant to which the law firm pays rent to Registrant. Accordingly, this arrangement presents a conflict of interest, such that Registrant could be deemed to have an incentive to recommend the law firm to Registrant’s clients (i.e., Registrant has an economic incentive to refer clients to the law firm since the law firm is a rent paying tenant of Registrant). **The Registrant’s Chief Compliance Officer, David S. Morgan, remains available to address any questions that a client or prospective client may have regarding the above conflicts of interest.**

**Retirement Rollovers-Potential for Conflict of Interest.** A client or prospective client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): i) leave the money in the former employer’s plan, if permitted, ii) roll over the assets to the new employer’s plan, if one is available and rollovers are permitted, iii) roll over the assets to an Individual Retirement Account (“IRA”), or iv) cash out the account value (which could, depending upon the client’s age, result in adverse tax consequences). If the Registrant recommends that a client roll over their retirement plan assets into an account managed by the Registrant, such a recommendation creates a ***conflict of interest*** if the Registrant will earn an advisory fee on the rolled over assets. **No client is under any obligation to roll over retirement plan assets to an account managed by Registrant. The Registrant’s Chief Compliance Officer, David S. Morgan, remains available to address any questions that a client or prospective client may have regarding the potential for conflict of interest presented by such roll over recommendation.**

**ERISA/IRC Fiduciary Acknowledgement.** If the client is: (i) a participant or beneficiary of a Plan subject to Title 1 of the Employee Retirement Income Security Act of 1974 (“ERISA”) or described in section 4975(e)(1)(A) of the Internal Revenue Code, with authority to direct the investment of assets in his or her Plan account or to take a distribution; (ii) the beneficial owner of an IRA acting on behalf of the IRA; or (iii) a Retail Fiduciary with respect to a plan subject to Title I of ERISA or described in section 4975(e)(1)(A) of the Internal Revenue Code: then Registrant represents that it and its



representatives are fiduciaries under ERISA or the Internal Revenue Code, or both, with respect to any investment advice provided by Registrant or its representatives or with respect to any investment recommendations regarding an ERISA Plan or participant or beneficiary account.

**Please Note: Asset Based Pricing Limitations:** Registrant, in limited circumstances, may recommend clients enter into an asset based pricing agreement with the account custodian, generally Charles Schwab & Co., Inc. Under an asset based pricing arrangement, the amount the client will pay the custodian for account commission/transaction fees is based upon a percentage (%) of the market value of the client's account (generally, the greater the market value, the lower the %). This differs from transaction-based pricing, which assesses a separate commission/transaction fee against the client's account for each account transaction. Account investment decisions are driven by security selection and anticipated market conditions and not the amount of transaction fees payable by the client to the account custodian. Registrant does not receive any portion of the asset based transaction fees payable by the client to the account custodian. Registrant continues to believe, in limited circumstances, clients benefit from an asset based pricing arrangement. However, a client can request at any time to switch from asset based pricing to transaction based pricing. However, there can be no assurance that the volume of transactions will be consistent from year-to-year given changes in market events and security selection. Therefore, given the variances in trading volume, any decision by a client to switch to transaction based pricing could prove to be economically disadvantageous. **The Registrant's Chief Compliance Officer, David S. Morgan, remains available to address any questions that a client or prospective client may have regarding the above arrangement.**

**Trade Error Policy.** From time to time Registrant may make an error in submitting a trade order on a client's behalf. When this occurs, Registrant may place a correcting trade with the broker-dealer which has custody of the client's account. When Registrant corrects an error, the client must not be disadvantaged; the client must be "made whole", neither recognizing any loss nor gain from the error. Accordingly, if Registrant makes an error while submitting a trade for a client's account, then Registrant, in order to comply with its fiduciary obligation to the client, must bear any costs of correcting such a trade.

**Client Obligations.** In performing its services, Registrant shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify the Registrant, in writing, if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Registrant's previous recommendations and/or services.

**Please Note:** Neither the Registrant, nor any of its employees, serve as an attorney, accountant, or insurance agent for any of the Registrant's clients, and no portion of the Registrant's services should be construed as same. Accordingly, Registrant **does not** prepare estate planning documents, nor does Registrant sell insurance products. Registrant does offer income tax preparation services as disclosed herein.

**Please Note – Use of Mutual Funds:** Most mutual funds are available directly to the public. Thus, a prospective client can obtain some of the mutual funds that may be recommended and/or utilized by Registrant independent of engaging Registrant as an investment advisor. However, if a prospective client determines to do so, he/she will not receive Registrant's initial and ongoing investment advisory services.

- C. The Registrant shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, the Registrant shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at any time, impose reasonable restrictions, in writing, on the Registrant's services.
- D. The Registrant does not participate in a wrap fee program.
- E. As of December 31, 2016, the Registrant had \$1,937,946,000 in assets under management on a discretionary basis and \$149,859,000 in assets under management on a non-discretionary basis.

## Item 5 Fees and Compensation

- A. The client can determine to engage the Registrant to provide discretionary and/or non-discretionary investment advisory services on a *fee-only* basis.

### INVESTMENT ADVISORY SERVICES

If a client determines to engage the Registrant to provide discretionary and/or non-discretionary investment advisory services on a *fee-only* basis, the Registrant's annual investment advisory fee is based upon a percentage (%) of the market value of the assets placed under the Registrant's management, is negotiable, and varies based upon the scope of and type of services to be provided as follows:

#### Non-Sub-Advised and Sub-Advised Portfolios (*exclusive of sub-advisors fees*)\*

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
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Next \$2,000,000	0.600%
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Over \$20,000,000	0.350%

\*PLEASE NOTE: Generally, for new clients that engage Registrant subsequent to December 31, 2017. This fee schedule does not apply to existing clients of Registrant (see Grandfathered Fee Schedules disclosure below), nor does the fee schedule apply to Registrant's other advisory services including financial advisory and consulting services, or services provided under the Schwab Advisor Network® fee schedule below. Rather, as discussed below, such services are available on a stand-alone, separate fee basis, per the terms and conditions of a separate written agreement.

Non-Sub-Advised portfolios (direct management by Registrant), Sub-Advised Fixed Income portfolios, and Sub-Advised Equity portfolios are aggregated when applying the fee percentages described above.

A separate sub-advisor fee, in addition to Registrant's fee, will be charged for Sub-Advised Fixed Income portfolios and Sub-Advised Equity portfolios. Unless otherwise specifically indicated to the contrary, the annual fee charged by the designated sub-advisor (generally ranging between 0.300% and 0.750% depending upon the type of management services

required and the market value of the assets to be managed), is **exclusive** of, and in addition to, Registrant's investment advisory fee.

***Alternative Investments (exclusive of charges imposed by the alternative investment, for example management fees)***

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
Less than \$10,000,000	1.000%
At least \$10,000,000	0.900%

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**FINANCIAL ADVISORY AND CONSULTING SERVICES (STAND-ALONE)**

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## **RETIREMENT CONSULTING SERVICES**

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## **SCHWAB ADVISOR NETWORK® (Combined Services)**

Registrant receives client referrals from Charles Schwab & Co., Inc. through Registrant's participation in the Schwab Advisor Network® ("the Service"). See a description of the Service in Item 12 and Item 14 below.

Registrant provides clients referred through the Service discretionary and/or non-discretionary investment advisory services and financial advisory and consulting services (including investment consulting services, retirement planning, cash flow planning, estate consulting services (not involving legal or accounting advice/services), and budget analysis and review, etc.) for a combined fee for both services. The Registrant's annual combined investment advisory and financial advisory fee is based upon a percentage (%) of the market value of the assets placed under Registrant's management, is negotiable, and varies upon the scope of and type of services to be provided as follows:

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At least \$10,000,000	0.900%

Registrant requires a minimum account size of \$500,000 for clients referred through Registrant's participation in the Service. For clients referred through the Service with an account size greater than \$4 million, Registrant will provide income tax preparation services for no additional fee. Registrant may charge an additional fee for providing income tax preparation services to clients with an account size less than \$4 million.

- B. Clients may elect to have the Registrant's advisory fees deducted from their custodial account. The Registrant's *Advisory Agreement* and *Investment Consulting Services Agreement* as well as the custodial/clearing agreement may authorize the custodian to debit the account for the amount of the Registrant's investment advisory and/or financial advisory fee and to directly remit the fee to the Registrant in compliance with regulatory procedures. In the event that the Registrant bills the client directly for investment advisory and/or financial advisory fees, payment is due upon receipt of the Registrant's invoice. Generally, the Registrant shall deduct fees and/or bill clients quarterly in advance, based upon the market value of the assets on the last business day of the previous quarter, or if the annual fee is a fixed fee, a pro rata portion of the annual fixed fee. Generally, Registrant requires all margin loans secured by managed assets be maintained in an unmanaged account. Margin loans maintained in an unmanaged account are not contemplated in the calculation of Registrant's investment advisory fee. Margin loans maintained in an unmanaged account do not reduce the market value of the assets in the managed accounts which serve as the basis for the calculation of Registrant's investment advisory fee. In the event Registrant waives the requirement that all margin loans secured by managed assets be maintained in an unmanaged account, generally because the margin loan is not material or is temporary in nature, the margin loan is contemplated in the calculation of Registrant's investment advisory fee, reducing the market value of the assets in the managed accounts which serve as the basis for the calculation of Registrant's investment advisory fee.
- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, the Registrant shall generally recommend that Charles Schwab & Co., Inc. ("Schwab") serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as Schwab charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e., transaction fees are charged for certain no-load mutual funds and commissions are charged for individual equity and fixed income securities transactions). In addition to Registrant's investment advisory fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g., management fees and other fund expenses).
- D. Generally, the Registrant's annual investment advisory fee shall be prorated and paid quarterly, in advance, based upon the market value of the assets on the last business day of the previous quarter. The Registrant generally requires a \$1,000,000 minimum asset level when Registrant is providing only investment advisory services to a client. Registrant may group related client accounts for the purpose of achieving the minimum account size requirements. The Registrant, in its sole discretion, may reduce its investment advisory fee and/or reduce or waive its minimum asset requirement based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

The *Advisory Agreement* and/or *Investment Consulting Services Agreement* between the Registrant and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the agreements. Upon termination, the Registrant shall refund the pro-rated portion of the prepaid advisory fee paid based upon the number of days remaining in the billing quarter.

- E. Neither the Registrant, nor its representatives accept compensation from the sale of securities or other investment products.

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

Neither the Registrant nor any supervised person of the Registrant accepts performance-based fees.

## **Item 7 Types of Clients**

The Registrant's clients shall generally include individuals, trusts, pension and profit sharing plans and business entities. The Registrant generally requires a \$1,000,000 minimum asset level when Registrant is providing only investment advisory services to a client. Registrant may group related client accounts for the purpose of achieving the minimum account size requirements. The Registrant, in its sole discretion, may reduce its investment advisory fee and/or reduce or waive its minimum asset requirement based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

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

- A. The Registrant may utilize the following methods of security analysis:
- Fundamental - (analysis performed on historical and present data, with the goal of making financial forecasts)
  - Technical – (analysis performed by analyzing statistics generated by market activity, such as past prices and volume)

The Registrant's primary investment strategy is strategic asset allocation. Registrant identifies and states the client's objectives and constraints, formulates an investment policy statement, and creates a strategic asset allocation. The strategic asset allocation specifies the major asset classes and exposure limits and is designed to meet the long run objectives given the client's constraints and realistic market expectations for risk and return. Registrant may also employ tactical asset allocation. Tactical asset allocation represents a deviation from the strategic asset allocation in order to exploit a perceived insight about the market.

The Registrant may also utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)

**Please Note: Investment Risk.** Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by the Registrant) will be profitable or equal any specific performance level(s).

- B. The Registrant's methods of analysis and investment strategies do not present any significant or unusual risks. However, every method of analysis has its own inherent risks. To perform an accurate market analysis the Registrant must have access to current/new market information. The Registrant has no control over the dissemination rate of market information; therefore, unbeknownst to the Registrant, certain analyses may be compiled with outdated market information, severely limiting the value of the Registrant's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

The Registrant's primary investment strategies - Long Term Purchases and Short Term Purchases are both fundamental and technical investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy.

- C. Currently, the Registrant primarily allocates client investment assets among various individual equity (stocks) and fixed income securities, mutual funds, exchange traded funds/notes, private funds, and unaffiliated sub-advisors, on a discretionary and non-discretionary basis in accordance with the client's designated investment objective(s).

## **Item 9            Disciplinary Information**

The Registrant has not been the subject of any disciplinary actions.

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

- A. Neither the Registrant, nor its representatives, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither the Registrant, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.
- C. The Registrant does not have any relationship or arrangement that is material to its advisory business or to its clients with any related person.
- D. The Registrant does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients. However, as disclosed above in Item 4, Registrant has entered into a sub-advisory agreement with Security Capital Research and

Management Incorporated (“Security Capital”), an SEC registered investment adviser, pursuant to which Security Capital performs sub-advisory services with respect to securities portfolios for certain of Registrant’s clients. Registrant has also entered into an *Advisory Agreement* with certain employees of Security Capital, pursuant to which Registrant provides advisory services to these employees and charges advisory fees as described herein. Accordingly, this arrangement presents a conflict of interest, such that Registrant could be deemed to have an incentive to recommend and/or select Security Capital as a sub-advisor for its client accounts.

- E. The Registrant may recommend the services of other professionals for certain implementation purposes (i.e., attorneys, accountants, licensed insurance agents, mortgage brokers, etc.), including professionals that are clients of the Registrant. This arrangement presents a conflict of interest, such that Registrant could be deemed to have an incentive to recommend these client professionals to Registrant’s other clients.
- F. Registrant has entered into a sub-lease agreement with an unaffiliated law firm to share office space at Registrant’s principal office location, pursuant to which the law firm pays rent to Registrant. Accordingly, this arrangement presents a conflict of interest, such that Registrant could be deemed to have an incentive to recommend the law firm to Registrant’s clients (i.e., Registrant has an economic incentive to refer clients to the law firm since the law firm is a rent paying tenant of Registrant).

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

- A. The Registrant maintains an investment policy relative to personal securities transactions. This investment policy is part of Registrant’s overall Code of Ethics, which serves to establish a standard of business conduct for all of Registrant’s Representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, the Registrant also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by the Registrant or any person associated with the Registrant.

- B. Neither the Registrant nor any related person of Registrant recommends, buys, or sells for client accounts, securities in which the Registrant or any related person of Registrant has a material financial interest.
- C. The Registrant and/or representatives of the Registrant may buy or sell securities that are also recommended to clients. This practice may create a situation where the Registrant and/or representatives of the Registrant are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as “scalping” (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if the Registrant did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, “front-running” (i.e., personal trades executed prior to those of the Registrant’s clients) and other potentially abusive practices.

The Registrant has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of the Registrant’s “Access Persons”.



The Registrant's securities transaction policy requires that an Access Person of the Registrant must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person's current securities holdings at least once each twelve (12) month period thereafter on a date the Registrant selects; provided, however that at any time that the Registrant has only one Access Person, he or she shall not be required to submit any securities report described above.

- D. The Registrant and/or representatives of the Registrant may buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where the Registrant and/or representatives of the Registrant are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11 C, the Registrant has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Registrant's Access Persons.

## **Item 12 Brokerage Practices**

- A. In the event that the client requests that the Registrant recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct the Registrant to use a specific broker-dealer/custodian), Registrant generally recommends that investment management accounts be maintained at Schwab. Prior to engaging Registrant to provide investment advisory services, the client will be required to enter into a formal *Advisory Agreement* with Registrant setting forth the terms and conditions under which Registrant shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that the Registrant considers in recommending Schwab (or any other broker-dealer/custodian to clients) include historical relationship with the Registrant, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by Registrant's clients shall comply with the Registrant's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where the Registrant determines, in good faith, that the commission/transaction fee is reasonable in relation 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 into consideration the full range of a broker-dealer services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Registrant will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Registrant's investment advisory fee. The Registrant's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

### **1. Research and Additional Benefits**

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, Registrant may receive from Schwab (or another broker-dealer/custodian) without cost (and/or at a

discount) support services and/or products, certain of which assist the Registrant to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by the Registrant may be investment-related research, pricing information and market data, software and other technology that provides access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by Registrant in furtherance of its investment advisory business operations.

As indicated above, certain of the support services and/or products that may be received may assist the Registrant in managing and administering client accounts. Others do not directly provide such assistance, but rather assist the Registrant to manage and further develop its business enterprise.

Registrant's clients do not pay more for investment transactions effected and/or assets maintained at Schwab as a result of this arrangement. There is no corresponding commitment made by the Registrant to Schwab or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as result of the above arrangement.

**The Registrant's Chief Compliance Officer, David S. Morgan, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding conflict of interest such arrangement may create.**

2. The Registrant receives client referrals from Charles Schwab & Co., Inc. ("Schwab") through Registrant's participation in Schwab Advisor Network® ("the Service"). The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with Registrant. Schwab does not supervise Registrant and has no responsibility for Registrant's management of clients' portfolios or Registrant's other advice or services. Registrant pays Schwab fees to receive client referrals through the Service. Registrant's participation in the Service may raise potential conflicts of interest described below.

Registrant pays Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by Registrant is a percentage of the fees the client owes to Registrant or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. Registrant pays Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to Registrant quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by Registrant and not by the client. **Registrant has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs Registrant charges clients with similar engagements who were not referred through the Service.**

Registrant generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from

Schwab. This Fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees Registrant generally would pay in a single year. Thus, Registrant will have an incentive to recommend that client accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of Registrant's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, Registrant will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit Registrant's fees directly from the accounts.

For accounts of Registrant's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from Registrant's clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Thus, Registrant may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. Registrant nevertheless, acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for Registrant's other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

**PLEASE NOTE:** The Registrant provides services to Schwab referrals under a separate, combined services, fee schedule (see Items 4 and 5 above), which includes both investment management and financial advisory and consulting services. As such, it is different from Registrant's current standard fee schedule for clients that engage the Registrant separate from the Schwab Advisor Network® post December 2017. Under that fee schedule, financial advisory and consulting services are available on a stand-alone, separate fee basis, per the terms and conditions of a separate written agreement. **ANY QUESTIONS: Registrant's Chief Compliance Officer, David S. Morgan, remains available to address any questions regarding Registrant's service offerings and fees.**

**The Registrant's Chief Compliance Officer, David S. Morgan, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding conflict of interest such arrangement may create.**

3. **Directed Brokerage:** The Registrant does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Registrant will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders

for other accounts advised by Registrant. As a result, a client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

**Please Note:** In the event that the client directs Registrant to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through Registrant. Higher transaction costs adversely impact account performance. **Please Also Note:** Transactions for directed accounts will generally be executed following the execution of portfolio transactions for non-directed accounts.

**The Registrant's Chief Compliance Officer, David S. Morgan, remains available to address any questions that a client or prospective client may have regarding the above arrangement and the corresponding conflict of interest presented by such arrangement.**

- B. To the extent that the Registrant provides investment advisory services to its clients, the transactions for each client account generally will be effected independently, unless the Registrant decides to purchase or sell the same securities for several clients at approximately the same time. The Registrant may (but is not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among the Registrant's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. The Registrant shall not receive any additional compensation or remuneration as a result of such aggregation.
- C. Daniel R. Jurgovan, Director of Information Technology of Registrant, serves on the Schwab Advisor Services Technology Advisory Board (the "Board"). As described above, Registrant may recommend that clients establish brokerage accounts with Charles Schwab & Co., Inc. ("Schwab") to maintain custody of the clients' assets and effect trades for their accounts. The Board consists of approximately 21 representatives of independent investment advisory firms who have been invited by Schwab management to participate in meetings and discussions of Schwab Advisor Services' services for independent investment advisory firms and their clients. Board members serve for three-year terms. Mr. Jurgovan's term ends December 31, 2018. Board members enter nondisclosure agreements with Schwab under which they agree not to disclose confidential information shared with them. This information generally does not include material nonpublic information about the Charles Schwab Corporation, whose common stock is listed for trading on the New York Stock Exchange and the NASDAQ stock market (symbol SCHW). The Board meets in person approximately twice per year and has periodic conference calls scheduled as needed. Board members are not compensated by Schwab for their service, but Schwab does pay for or reimburse Board members' travel, lodging, meals and other incidental expenses incurred in attending Board meetings.

### **Item 13            Review of Accounts**

- A. For those clients to whom Registrant provides investment advisory services, account reviews are conducted on an ongoing basis by the Registrant's Principals and/or representatives. All investment advisory clients and financial advisory clients are advised that it remains their responsibility to advise the Registrant, in writing, of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial advisory services issues (to the extent applicable), investment objectives and account performance with the Registrant on an annual basis.
- B. The Registrant may conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Registrant may also provide a written periodic report summarizing account activity and performance.

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

- A. As referenced in Item 12.A.1 above, the Registrant may receive an economic benefit from Schwab. The Registrant, without cost (and/or at a discount), may receive support services and/or products from Schwab.

In addition, as referenced in Item 12.A.2 above, Registrant receives client referrals from Schwab through Registrant's participation in Schwab Advisor Network® ("the Service"). Registrant pays Schwab fees to receive client referrals through the Service. Registrant's participation in the Service may raise potential conflicts of interest as described above.

Registrant's clients do not pay more for investment transactions effected and/or assets maintained at Schwab as a result of these arrangements. There is no corresponding commitment made by the Registrant to Schwab or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as result of the above arrangements.

**The Registrant's Chief Compliance Officer, David S. Morgan, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.**

- B. If a client is introduced to the Registrant by either an unaffiliated or an affiliated solicitor, Registrant may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from the Registrant's investment advisory fee, and shall not result in any additional charge to the client. If the

client is introduced to the Registrant by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of his/her/its solicitor relationship, and shall provide each prospective client with a copy of the Registrant's written Brochure and with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between the Registrant and the solicitor, including the compensation to be received by the solicitor from the Registrant.

## **Item 15           Custody**

The Registrant shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. Clients are urged to notify Registrant if they have not been receiving written summary account statements directly from the broker-dealer/custodian and/or program sponsor. The Registrant may also provide a written periodic report summarizing account activity and performance.

**Please Note:** To the extent that the Registrant provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by the Registrant with the account statements received from the account custodian. **Please Also Note:** The account custodian does not verify the accuracy of the Registrant's advisory fee calculation.

The Registrant engages in other practices and/or services on behalf of its clients that require disclosure at the Custody section of Part 1 of Form ADV, which practices and/or services are subject to an annual surprise CPA examination in accordance with the requirements of Rule 206(4)-2 under the Investment Advisers Act of 1940.

**The Registrant's Chief Compliance Officer, David S. Morgan, remains available to address any questions that a client or prospective client may have regarding custody-related issues.**

## **Item 16           Investment Discretion**

The client can determine to engage the Registrant to provide investment advisory services on a discretionary basis. Prior to the Registrant assuming discretionary authority over a client's account, the client shall be required to execute an *Advisory Agreement*, naming the Registrant as the client's attorney and agent in fact, granting the Registrant full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage the Registrant on a discretionary basis may, at any time, impose restrictions, **in writing**, on the Registrant's discretionary authority (i.e., limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe the Registrant's use of margin, etc.).

## **Item 17          Voting Client Securities**

- A. Except with respect to client accounts managed by sub-advisors, clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other types of events pertaining to the client's investment assets.
- B. Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact the Registrant to discuss any questions they may have with a particular solicitation.

## **Item 18          Financial Information**

- A. The Registrant does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. The Registrant is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. The Registrant has not been the subject of a bankruptcy petition.

**ANY QUESTIONS: The Registrant's Chief Compliance Officer, David S. Morgan, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**