

# Reilly Financial Advisors

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## Reilly Financial Advisors

### Brochure

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**This brochure provides information about the qualifications and business practices of Reilly Financial Advisors. If you have any questions about the contents of this brochure, please contact us at (619) 698-0794 or [frank.reilly@rfadvisors.com](mailto:frank.reilly@rfadvisors.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 Reilly Financial Advisors also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**References herein to Reilly Financial Advisors 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 RFA's disclosure statement since last year's Annual Amendment filing on April 24, 2014.

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#### **Item 4            Advisory Business**

- A. Reilly Financial Advisors (“RFA”) is a limited liability company formed on October 6, 1997 in the State of California. RFA became registered as an Investment Adviser Firm in July 1999. RFA is owned by the Frank and Gina Reilly Family Trust and the Donald F. Reilly and Mary Ann Reilly Trust. Donald Reilly is RFA’s Managing Member.
- B. As discussed below, RFA offers to its clients (individuals, business entities, trusts and pension and profit sharing plans, etc.) investment advisory services, and, to the extent specifically requested by a client, financial planning and related consulting services.

#### **INVESTMENT ADVISORY SERVICES**

The client can determine to engage RFA to provide discretionary investment advisory services on a *fee-only* basis.

RFA's annual investment advisory fee shall include investment advisory services, and, to the **extent specifically requested** by the client, financial planning and consulting services. In the event that the client requires extraordinary planning and/or consultation services (to be determined in the sole discretion of RFA), RFA may determine to charge for such additional services, the dollar amount of which shall be set forth in a separate written notice to the client.

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

To the extent specifically requested by a client, RFA *may* determine to provide financial planning and/or consulting services (including investment and non-investment related matters on a stand-alone separate fee basis. RFA’s planning and consulting fees are negotiable, but generally range from \$500 to \$2,000 on a fixed fee basis, and from \$200 to \$300 on an hourly rate basis, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s). Prior to engaging RFA to provide planning or consulting services, clients are generally required to enter into a *Financial Planning and Consulting Agreement* with RFA 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 RFA commencing services. **Please Note:** It remains the client’s responsibility to promptly notify RFA if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising RFA’s previous recommendations and/or services.

If requested by the client, RFA may recommend the services of other professionals for implementation purposes, including estate planning, insurance planning, etc. 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 RFA. **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

RFA if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising RFA's previous recommendations and/or services.

## MISCELLANEOUS

**Non-Investment Consulting/Implementation Services.** To the extent requested by the client, RFA may provide consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. Neither RFA, nor any of its representatives, serves as an attorney or accountant, and no portion of RFA's services should be construed as same. To the extent requested by a client, RFA may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance, etc.). 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 RFA. **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 RFA if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising RFA's previous recommendations and/or services.

**Client Obligations.** In performing its services, RFA 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 RFA if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising RFA's previous recommendations and/or services.

**Disclosure Statement.** A copy of RFA's written Brochure as set forth on Part 2A of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Advisory Agreement or Financial Planning and Consulting Agreement*. Any client who has not received a copy of RFA's written Brochure at least 48 hours prior to executing the *Investment Advisory Agreement or Financial Planning and Consulting Agreement* shall have five business days subsequent to executing the agreement to terminate RFA's services without penalty.

- C. RFA 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, RFA shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at anytime, impose reasonable restrictions, in writing, on RFA's services.
- D. RFA does not participate in a wrap fee program.
- E. As of March 24, 201 RFA had \$611,896,576 in assets under management on a discretionary basis.

## Item 5 Fees and Compensation

- A. The client can determine to engage RFA to provide discretionary investment advisory services on a *fee-only* basis. . **Please Note:** Going forward for new clients as of April 1, 2013, the below fee schedule will be effective. All pre-existing clients will continue to be charged under the previous RFA fee schedule and/or in accordance with the fee set forth on the Investment Advisory Agreement between RFA and the client.

### INVESTMENT ADVISORY SERVICES

If a client determines to engage RFA to provide discretionary investment advisory services on a *fee-only* basis, RFA's annual investment advisory fee shall be based upon a percentage (%) of the market value and type of assets placed under RFA's management (between negotiable and 2.50%) as follows:

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
\$0- \$500,000	1.50%
\$500,000-\$1,000,000	1.25%
\$1,000,000-\$3,000,000	1.00%
Over \$3,000,000	0.75%

For non-US citizen clients the following fee schedule will apply:

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
\$0- \$1,000,000	2.50%
Over \$1,000,000	Negotiable

RFA's annual investment advisory fee shall include investment advisory services, and, to the **extent specifically requested** by the client, financial planning and consulting services. In the event that the client requires extraordinary planning and/or consultation services (to be determined in the sole discretion of RFA), RFA may determine to charge for such additional services, the dollar amount of which shall be set forth in a separate written notice to the client.

### FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)

To the extent specifically requested by a client, RFA *may* determine to provide financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone fee basis. RFA's planning and consulting fees are negotiable, but generally range from \$500 to \$2,000 on a fixed fee basis, and from \$200 to \$300 on an hourly rate basis, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s).

- B. Clients may elect to have RFA's advisory fees deducted from their custodial account. Both RFA's *Investment Advisory Agreement* and the custodial/ clearing agreement may authorize the custodian to debit the account for the amount of RFA's investment advisory fee and to directly remit that management fee to RFA in compliance with regulatory procedures. In the limited event that RFA bills the client directly, payment is due upon receipt of RFA's invoice. If the management fee is not received 45 days after the end of the quarter, RFA may deduct the fee directly from the custodial account. RFA 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.

- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, RFA shall generally recommend that TD Ameritrade ("Ameritrade") and/or Charles Schwab and Co., Inc. ("Schwab") serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as *Ameritrade* and *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, commissions are charged for individual equity and fixed income securities transactions). In addition to RFA's investment management 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). When beneficial to the client, individual fixed-income and/or equity transactions may be effected through broker-dealers with whom RFA and/or the client have entered into arrangements for prime brokerage clearing services, including effecting certain client transactions through other SEC registered and FINRA member broker-dealers (in which event, the client generally will incur both the transaction fee charged by the executing broker-dealer and a "tradeaway" fee charged by *Ameritrade* or *Schwab*).
- D. RFA'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. RFA generally requires a \$500,000 minimum asset level for investment advisory services. RFA, in its sole discretion, may reduce its investment management 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.).

\* One time additional deposits of funds and/or securities during any quarter in excess of \$25,000, or accounts established during a calendar quarter, will be billed in arrears at the end of the billing quarter, based upon the market value of the assets transferred to RFA's management during the quarter. One time withdrawals in excess of \$25,000 during any quarter will be prorated to the date of the withdrawal and the compensation differential will be refunded and/or credited to the client or the client account. No increase in the annual fee shall be effective without prior written notification to the client. In addition, RFA will also impose a \$500 account set-up fee in the event that the client terminates its account with RFA during the initial six (6) months of the engagement.

The *Investment Advisory Agreement* between RFA and the client will continue in effect until terminated by either party upon 30 days prior written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination, RFA shall refund the pro-rated portion of the advanced advisory fee paid.

- E. Neither RFA, 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 RFA nor any supervised person of RFA accepts performance-based fees.

## **Item 7            Types of Clients**

RFA's clients shall generally include individuals, business entities, trusts and pension and profit sharing plans. RFA generally requires a \$500,000 minimum asset level for investment advisory services. RFA, in its sole discretion, may reduce its investment management 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.). For additional information, please see Item 5, Section D.

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

A. RFA 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 on historical and present data, focusing on price and trade volume, to forecast the direction of prices)
- Cyclical – (analysis performed on historical relationships between price and market trends, to forecast the direction of prices)

RFA may 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)
- Trading (securities sold within thirty (30) days)
- Options (contract for the purchase or sale of a security at a predetermined price during a specific period of time)

**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 RFA) will be profitable or equal any specific performance level(s).

B. RFA'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 RFA must have access to current/new market information. RFA has no control over the dissemination rate of market information. 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.

RFA's primary investment strategies - Long Term Purchases, Short Term Purchases, and Trading - are fundamental 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. Trading, an investment strategy that requires the purchase and sale of securities within a thirty (30) day investment time period, involves a very short investment time period but will incur higher transaction costs when compared to a short term investment strategy and substantially higher transaction costs than a longer term investment strategy.

In addition to the fundamental investment strategies discussed above, RFA may also implement and/or recommend – options transactions. Each of these strategies has a high level of inherent risk. (*See* discussion below).

The use of options transactions as an investment strategy involves a high level of inherent risk. Option transactions establish a contract between two parties concerning the buying or selling of an asset at a predetermined price during a specific period of time. During the term of the option contract, the buyer of the option gains the right to demand fulfillment by the seller. Fulfillment may take the form of either selling or purchasing a security depending upon the nature of the option contract. Generally, the purchase or the recommendation to purchase an option contract by RFA shall be with the intent of offsetting/"hedging" a potential market risk in a client's portfolio. **Please Note:** Although the intent of the options-related transactions that may be implemented by RFA is to hedge against principal risk, certain of the options-related strategies (i.e. straddles, short positions, etc), may, in and of themselves, produce principal volatility and/or risk. Thus, a client must be willing to accept these enhanced volatility and principal risks associated with such strategies. In light of these enhanced risks, client may direct RFA, in writing, not to employ any or all such strategies for his/her/their/its accounts.

- C. Currently, RFA primarily allocates client investment assets among various individual equity (stocks) and fixed income securities and/or mutual funds, on a discretionary basis in accordance with the client's designated investment objective(s).

## **Item 9           Disciplinary Information**

RFA has not been the subject of any disciplinary actions.

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

- A. Neither RFA, 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 RFA, 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. RFA has no other relationship or arrangement with a related person that is material to its advisory business.
- D. RFA does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients.

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

- A. RFA maintains an investment policy relative to personal securities transactions. This investment policy is part of RFA’s overall Code of Ethics, which serves to establish a standard of business conduct for all of RFA’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, RFA also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by RFA or any person associated with RFA.

- B. Neither RFA nor any related person of RFA recommends, buys, or sells for client accounts, securities in which RFA or any related person of RFA has a material financial interest.
- C. RFA and/or representatives of RFA *may* buy or sell securities that are also recommended to clients. This practice may create a situation where RFA and/or representatives of RFA 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 RFA 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 RFA’s clients) and other potentially abusive practices.

RFA has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of RFA’s “Access Persons”. RFA’s securities transaction policy requires that an Access Person of RFA 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 calendar quarter thereafter on a date RFA selects; provided, however that at any time that RFA has only one Access Person, he or she shall not be required to submit any securities report described above.

- D. RFA and/or representatives of RFA *may* buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where RFA and/or representatives of RFA 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, RFA has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of RFA's Access Persons.

## **Item 12 Brokerage Practices**

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

Factors that RFA considers in recommending *Ameritrade* and/or *Schwab* (or any other broker-dealer/custodian to clients) include historical relationship with RFA, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by RFA's clients shall comply with RFA'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 RFA 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's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although RFA 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, RFA's investment management fee. RFA'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. TD Ameritrade**

#### **Ameritrade Institutional Customer Program**

Advisor participates in the institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. Advisor receives some benefits from TD Ameritrade through its participation in the Program.

RFA participates in *Ameritrade's* Institutional Customer Program (the "*Program*") and RFA may recommend *Ameritrade* to clients for custody and brokerage services. There is no direct link between RFA's participation in the *Program* and the investment advice it gives to its clients, although RFA receives economic benefits through its participation in the *Program* that are not typically available to *Ameritrade* retail investors. These benefits include the following products and services (provided

without cost or at a discount): duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing research, technology, and practice management products or services provided to RFA by third party vendors. *Ameritrade* may also have paid for business consulting and professional services received by RFA. Some of the products and services made available by *Ameritrade* through the *Program* may benefit RFA but may not benefit its client accounts. These products or services may assist RFA in managing and administering client accounts, including accounts not maintained at *Ameritrade*. Other services made available by *Ameritrade* are intended to help RFA manage and further develop its business enterprise. *Ameritrade* may also pay or reimburse expenses (including travel, lodging, meals and entertainment expenses) for RFA's representatives to attend conferences or meetings relating to the *Program* or to *Ameritrade's* advisor custody and brokerage services generally. The benefits received by RFA or its representatives through participation in the *Program* do not depend on the amount of brokerage transactions directed to *Ameritrade*. Clients should be aware, however, that the receipt of economic benefits by RFA or its representatives in and of itself creates a potential conflict of interest and may indirectly influence RFA's recommendation of *Ameritrade* for custody and brokerage services.

RFA also receives from *Ameritrade* certain additional economic benefits ("Additional Services") that may or may not be offered to any other independent investment advisers participating in the *Program*. Specifically, the Additional Services include Broadridge.

*Ameritrade* provides the Additional Services to RFA in its sole discretion and at its own expense, and RFA does not pay any fees to *Ameritrade* for the Additional Services. RFA and *Ameritrade* have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services.

RFA's receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to RFA, *Ameritrade* most likely considers the amount and profitability to *Ameritrade* of the assets in, and trades placed for, RFA's client accounts maintained with *Ameritrade*. *Ameritrade* has the right to terminate the Additional Services Addendum with RFA, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from *Ameritrade*, RFA may have an incentive to recommend to its clients that the assets under management by RFA be held in custody with *Ameritrade* and to place transactions for client accounts with *Ameritrade*. RFA's receipt of Additional Services does not diminish its duty to act in the best interests of its clients, including seeking best execution of trades for client accounts.

**RFA's Chief Compliance Officer, Frank Reilly, 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 such arrangement may create.**

**Ameritrade AdvisorDirect**

RFA may receive client referrals from *Ameritrade* through its participation in *Ameritrade AdvisorDirect* (the “*AdvisorDirect*”). In addition to meeting the minimum eligibility criteria for participation in *AdvisorDirect*, RFA may have been selected to participate in *AdvisorDirect* based on the amount and profitability to *Ameritrade* of the assets in, and trades placed for, client accounts maintained with *Ameritrade*. *Ameritrade* is a discount broker-dealer independent of and unaffiliated with RFA and there is no employee or agency relationship between them. *Ameritrade* has established the referral program as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. *Ameritrade* does not supervise RFA and has no responsibility for RFA’s management of client portfolios or RFA’s other advice or services. RFA pays *Ameritrade* an on-going fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the client pays to RFA (“Solicitation Fee”). RFA will also pay *Ameritrade* the Solicitation Fee on any advisory fees received by RFA from any of a referred client’s family members, including a spouse, child or any other immediate family member who resides with the referred client and hired RFA on the recommendation of such referred client. RFA will not charge clients referred through *AdvisorDirect* any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to *Ameritrade* to its clients.

RFA’s participation in *AdvisorDirect* raises potential conflicts of interest. *Ameritrade* will most likely refer clients through *AdvisorDirect* to investment advisors that encourage their clients to custody their assets at *Ameritrade* and whose client accounts are profitable to *Ameritrade*. Consequently, in order to obtain client referrals from *Ameritrade*, RFA may have an incentive to recommend to clients that the assets under management by RFA be held in custody with *Ameritrade* and to place transactions for client accounts with *Ameritrade*. In addition, RFA has agreed not to solicit clients referred to it through *AdvisorDirect* to transfer their accounts from *Ameritrade* or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. RFA’s participation in *AdvisorDirect* does not diminish its duty to seek best execution of trades for client accounts.

In addition, RFA may receive additional benefits from participation in *AdvisorDirect*. There is no direct link between RFA’s participation in the program and the investment advice it gives to its clients, although RFA receives economic benefits through its participation in the program that are typically not available to *Ameritrade* retail investors. These benefits include the receipt of duplicate client statements; access to a trading desk serving adviser participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to RFA by third party vendors. The benefits received by RFA or its

personnel through participation in the program do not depend on the amount of brokerage transactions directed to *Ameritrade*. As part of its fiduciary duties to clients, RFA endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by RFA or its representatives creates a conflict of interest.

**RFA's Chief Compliance Officer, Frank Reilly, 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.**

Charles Schwab & Co., Inc.

RFA may recommend that clients establish brokerage accounts with the *Schwab* Institutional division of *Schwab*, to maintain custody of clients' assets and to effect trades for their accounts. RFA is independently owned and operated and not affiliated with *Schwab*. *Schwab* provides RFA with access to its institutional trading and custody services, which are not typically available to *Schwab* retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets are maintained in accounts at *Schwab* Institutional, and are not otherwise contingent upon an advisor committing to *Schwab* any specific amount of business (assets in custody or trading). *Schwab's* services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For RFA client accounts maintained in its custody, *Schwab* generally does not charge separately for custody but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through *Schwab* or that settle into *Schwab* accounts.

*Schwab* also makes available to RFA other products and services that benefit RFA but may not benefit its clients' accounts. Some of these other products and services assist RFA in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts.), provide research, pricing information, and other market data, facilitate payment of RFA's fees from its clients' accounts, and assist with back-office functions, recordkeeping and other client reporting. Many of these services generally may be used to service all or a substantial number of RFA's accounts, including accounts not maintained at *Schwab* Institutional. *Schwab* Institutional also makes available to RFA other services intended to help RFA manage and further develop its business enterprise. These services may include consulting, publications, and conference on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, *Schwab* may make available, arrange and/or pay for these types of services rendered to RFA by independent third parties. *Schwab* Institutional may discount or waive fees it would otherwise charge for some of these services or pay all or part of the fees of a third-party providing these services to RFA. While as a fiduciary, RFA endeavors to act in its clients' best interests, RFA's recommendation

that clients maintain their assets in accounts at *Schwab* may be based in part on the benefit to RFA of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by *Schwab*, which may create a potential conflict of interest.

**RFA's Chief Compliance Officer, Frank Reilly, 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.**

#### *Schwab* Referrals

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

RFA 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 RFA is a percentage of the fees owed by the client to RFA or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. RFA 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 RFA quarterly and may be increased, decreased or waived by *Schwab* from time to time. The Participation Fee is paid by RFA and not by the client. RFA has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs RFA charges clients with similar portfolios (pursuant to RFA's standard fee schedule as in effect from time to time) who were not referred through the Service.

RFA 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*, unless 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 in custody other than at Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees RFA generally would pay in a single year. Thus, RFA 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 RFA's clients who were referred by *Schwab* and those referred clients' family members living in the same household. Thus, RFA 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 RFA's fees directly from the accounts.

For accounts of RFA's clients maintained in custody at *Schwab*, *Schwab* will not charge the client separately for custody but will receive compensation from RFA'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 to be executed through *Schwab* rather than another broker-dealer. RFA 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 RFA'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.

**RFA's Chief Compliance Officer, Frank Reilly, 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.**

#### 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, RFA may receive from *Ameritrade* and/or *Schwab* (or another broker-dealer/custodian) without cost (and/or at a discount) support services and/or products, certain of which assist RFA to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by RFA may be investment-related research, pricing information and market data, software and other technology that provide 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 RFA 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 RFA in managing and administering client accounts. Others do not directly provide such assistance, but rather assist RFA to manage and further develop its business enterprise.

RFA's clients do not pay more for investment transactions effected and/or assets maintained at *Ameritrade* and/or *Schwab* as a result of this arrangement. There is no corresponding commitment made by RFA to *Ameritrade* and/or *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 a result of the above arrangement.

**RFA's Chief Compliance Officer, Frank Reilly, 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 such arrangement may create.**

2. RFA may receive client referrals from *Ameritrade* through its participation in *AdvisorDirect* and from *Schwab* for its participation in the Schwab Advisor Network™.

**RFA's Chief Compliance Officer, Frank Reilly, 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 such arrangement may create.**

3. RFA 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 RFA 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 managed by RFA. As a result, 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 RFA 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 RFA.

**RFA's Chief Compliance Officer, Frank Reilly, remains available to address any questions that a client or prospective client may have regarding the above arrangement.**

- B. To the extent that RFA provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless RFA decides to purchase or sell the same securities for several clients at approximately the same time. RFA 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 RFA'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. RFA shall not receive any additional compensation or remuneration as a result of such aggregation.

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

- A. For those clients to whom RFA provides investment supervisory services, account reviews are conducted on an ongoing basis by RFA's Principals and/or representatives. All investment supervisory clients are advised that it remains their responsibility to advise RFA of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with RFA on an annual basis.



- B. RFA *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. RFA 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, RFA may receive an indirect economic benefit from *Ameritrade* and/or *Schwab*. RFA, without cost (and/or at a discount), may receive support services and/or products from *Ameritrade* and/or *Schwab*.

RFA's clients do not pay more for investment transactions effected and/or assets maintained at *Ameritrade* and/or *Schwab* as a result of this arrangement. There is no corresponding commitment made by RFA to *Ameritrade* and/or *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 a result of the above arrangement.

**RFA's Chief Compliance Officer, Frank Reilly, 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 RFA by either an unaffiliated or an affiliated solicitor, RFA *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 RFA's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to RFA 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 RFA's written Brochure with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between RFA and the solicitor, including the compensation to be received by the solicitor from RFA.

#### **Item 15      Custody**

RFA 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. RFA may also provide a written periodic report summarizing account activity and performance.

**Please Note:** To the extent that RFA provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by RFA with the

account statements received from the account custodian. **Please Also Note:** The account custodian does not verify the accuracy of RFA's advisory fee calculation.

## **Item 16 Investment Discretion**

The client can determine to engage RFA to provide investment advisory services on a discretionary basis. Prior to RFA assuming discretionary authority over a client's account, the client shall be required to execute an *Investment Advisory Agreement*, naming RFA as the client's attorney and agent in fact, granting RFA 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 RFA on a discretionary basis may, at anytime, impose restrictions, **in writing**, on RFA'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 RFA's use of margin, etc.).

## **Item 17 Voting Client Securities**

- A. Unless the client directs otherwise in writing, RFA is responsible for voting client proxies (**However**, the client shall maintain exclusive responsibility for all legal proceedings or other type events pertaining to the account assets, including, but not limited to, class action lawsuits.). RFA shall vote proxies in accordance with its Proxy Voting Policy, a copy of which is available upon request. RFA shall monitor corporate actions of individual issuers and investment companies consistent with RFA fiduciary duty to vote proxies in the best interests of its clients. Although the factors which RFA will consider when determining how it will vote differ on a case by case basis, they may, but are not be limited to, include the following a review of recommendations from issuer management, shareholder proposals, cost effects of such proposals, effect on employees and executive and director compensation. With respect to individual issuers, RFA may be solicited to vote on matters including corporate governance, adoption or amendments to compensation plans (including stock options), and matters involving social issues and corporate responsibility. With respect to investment companies (e.g., mutual funds), RFA may be solicited to vote on matters including the approval of advisory contracts, distribution plans, and mergers. RFA shall maintain records pertaining to proxy voting as required pursuant to Rule 204-2 (c)(2) under the Advisers Act. Copies of Rules 206(4)-6 and 204-2(c)(2) are available upon written request. In addition, information pertaining to how RFA voted on any specific proxy issue is also available upon written request. Requests should be made by contacting RFA's Chief Compliance Officer, Frank Reilly.
- B. As set forth in Item 17.A above, RFA votes client proxies.

## **Item 18 Financial Information**

- A. RFA does not solicit fees of more than \$1,200, per client, six months or more in advance.

- B. RFA 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. RFA has not been the subject of a bankruptcy petition.

**ANY QUESTIONS: RFA's Chief Compliance Officer, Frank Reilly, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**