



Financial Management Network, Inc.
26041 Acero, Mission Viejo, CA 92691
(949) 455-0300
www.fmncc.com

December 23, 2013

This Brochure provides information about the qualifications and business practices of Financial Management Network, Inc. If you have any questions about the contents of this Brochure, please contact us at (949) 455-0300 and/or dschofield@fmncc.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

Additional information about Financial Management Network, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

This Brochure dated December 23, 2013 is our most recent ADV Part 2 Brochure prepared according to the SEC's requirements and rules. Changes to this document from our previous brochure dated March 21, 2013 are as follows:

Page 6 – Advisory Business – updated the number of clients the firm provides asset management services and the amount of assets it has under management (both on a discretionary basis and non-discretionary basis).

Pursuant to SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

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

Currently, our Brochure may be requested by contacting David Schofield, Director of Operations and Compliance at (949) 455-0300 or dschofield@fmncc.com. Our Brochure is also available on our web site www.fmncc.com, also free of charge.

Additional information about Financial Management Network, Inc. is also available via the SEC's web site www.adviserinfo.sec.gov. The SEC's web site also provides information about any persons affiliated with Financial Management Network, Inc. who are registered, or are required to be registered, as investment adviser representatives of Financial Management Network, Inc.

Item 3 -Table of Contents

Item 1 – Cover Page	i
Item 2 – Material Changes	ii
Item 3 -Table of Contents	iii
Item 4 – Advisory Business	1
Item 5 – Fees and Compensation	5
Item 6 – Performance-Based Fees and Side-By-Side Management	9
Item 7 – Types of Clients	9
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss	9
Item 9 – Disciplinary Information	15
Item 10 – Other Financial Industry Activities and Affiliations	15
Item 11 – Code of Ethics	16
Item 12 – Brokerage Practices	17
Item 13 – Review of Accounts	17
Item 14 – Client Referrals and Other Compensation	18
Item 15 – Custody	19
Item 16 – Investment Discretion	19
Item 17 – Voting Client Securities	19
Item 18 – Financial Information	19
Brochure Supplement(s)	

Item 4 – Advisory Business

Established in 1991 as a California Corporation, Financial Management Network, Inc. ("FMN") is a full-service, comprehensive financial advisory firm dedicated to providing superior service and quality financial products to clients. FMN's principal owner is the Merwin Family Trust, dated April 5, 2001 which owns more than 25% or more of the firm.

FMN provides investment advice to over 920 clients with over \$530,127,284 assets under management as of September 30, 2013. Of the \$530,127,284 assets under management, FMN manages \$503,620,364 on a discretionary basis and the remaining \$26,506,364 on a non-discretionary basis.

As discussed below in this disclosure statement, FMN provides its clients (i.e., individuals, business entities, pension and profit sharing plans, and trusts) with financial planning and related consulting services, business consulting, and discretionary (primarily) and nondiscretionary investment management services.

MANAGEMENT: For certain Clients, FMN will move the Client's money between various securities as market conditions dictate and in consideration of the Client's investment objectives. The Client authorizes FMN to move the Client's money in Client's account (the "Account") at FMN's discretion and without first consulting Client. Such discretionary authority shall be limited to the buying and selling of securities. Client will notify FMN promptly of any significant change in the information provided by the Client or any other significant change in Client's financial circumstances or investment objectives that might affect the manner in which Client's account should be managed. Client will provide FMN with such additional information as FMN may request from time to time to assist it in managing the Account. The Client acknowledges that FMN cannot adequately perform its services for the Client unless the Client diligently performs his/her/their/its responsibilities. The client authorizes FMN to respond to inquiries from, and communicate and share information with, Client's attorney, accountant and other professionals to the extent necessary in furtherance of FMN's services. FMN shall not be required to verify any information obtained from the Client, Client's attorney, accountant or other professionals, and is expressly authorized to rely thereon.

Each Client may have a separate Account established with one or more of the following brokerages/custodians: FMN Capital Corporation, a Broker-Dealer registered with the U.S. Securities and Exchange Commission (SEC), and a member of the Financial Industry Regulatory Authority (FINRA), Charles Schwab (Schwab), FISERV Trust Company (FISERV), Fidelity management Trust Company (FTC) and/or Fidelity Investment Advisors Group (FIAG). The Client understands that all historical research data, forecasts, projections, exhibits and other indications as to past performance referred to by FMN are not to be considered promises, guarantees or indications of future performance.

Therefore, there can be no assurances that these objectives can be met and past performance is no guarantee that future results will be as successful. Recommendations will be based on "Investment Policy" made up of the following three objectives: (1) Acceptable probabilities for achieving a relevant and predetermined rate of return (95% probability will be used); (2) an acceptable policy for funding the plan's objectives; and (3) a time horizon for measuring success (a 5 year time horizon will be used).

MODEL PORTFOLIO MANAGEMENT: For certain Clients, FMN will move the Client's money between various securities as market conditions dictate and in consideration of the Client's investment objectives. The Client authorizes Financial Management Network, Inc. to move the Client's money at FMN's discretion. Such discretionary authority shall be limited to the buying and selling of securities. Client will notify FMN promptly of any significant change in the information provided by the Client or any other significant change in Client's financial circumstances or investment objectives that might affect the manner in which Client's account should be managed. Client will provide FMN with such additional information as FMN may request from time to time to assist it in managing the Account. The Client acknowledges that FMN cannot adequately perform its services for the Client unless the Client diligently performs his/her/their/its responsibilities. The client authorizes FMN to respond to inquiries from, and communicate and share information with, Client's attorney, accountant and other professionals to the extent necessary in furtherance of FMN's services. FMN shall not be required to verify any information obtained from the Client, Client's attorney, accountant or other professionals, and is expressly authorized to rely thereon. Each Client will have a separate Account established with FMN Capital Corporation. The Client understands that all historical research data, forecasts, projections, exhibits and other indications as past performance referred to by FMN are not to be considered promises, guarantees or indications of future performance. Therefore, there can be no assurances that these objectives can be met and past performance is no guarantee that future results will be as successful. Recommendations will be based on "Investment Policy" made up of the following three objectives: (1) Acceptable probabilities for achieving a relevant and predetermined rate of return (95% probability will be used); (2) an acceptable policy for funding the plan's objectives; and (3) a time horizon for measuring success (a 5 year time horizon will be used).

FM6 MANAGEMENT: For certain Clients who are employees of non-profit organizations with prior arrangements with Financial Management Network, Inc., FMN will move the Client's money between various securities as market conditions dictate and in consideration of the client's investment objectives. The Client authorizes FMN to move the Client's money at FMN's discretion. Such discretionary authority shall be limited to the buying and selling of securities. Client will notify FMN promptly of any significant change in the information provided by the Client or any other significant change in Client's financial circumstances or investment objectives that might affect the manner in which Client's account should be managed. Client will provide FMN with such additional

information as FMN may request from time to time to assist it in managing the Account. The Client acknowledges that FMN cannot adequately perform its services for the Client unless the Client diligently performs his/her/their/its responsibilities. The client authorizes FMN to respond to inquiries from, and communicate and share information with, Client's attorney, accountant and other professionals to the extent necessary in furtherance of FMN's services. FMN shall not be required to verify any information obtained from the Client, Client's attorney, accountant or other professionals, and is expressly authorized to rely thereon. Each Client will have a separate Account established with FMN Capital Corporation. The Client understands that all historical research data, forecasts, projections, exhibits and other indications as past performance referred to by FMN are not to be considered promises, guarantees or indications of future performance. Therefore, there can be no assurances that these objectives can be met and past performance is no guarantee that future results will be as successful. Recommendations will be based on "Investment Policy" made up of the following three objectives: (1) Acceptable probabilities for achieving a relevant and predetermined rate of return (95% probability will be used); (2) an acceptable policy for funding the plan's objectives; and (3) a time horizon for measuring success (a 5 year time horizon will be used).

PLANNING: For certain Clients, FMN will provide one of the following: (A) "Total Financial Planning Package" which will include a written financial plan which includes advice on assets, indebtedness, present and future income, insurance policies, the Client's desired financial goals and other related data such as (1) cash flow management, (ii) tax planning, (iii) accumulation of wealth, (iv) risk management, (v) retirement provisions and (vi) estate planning; or (B) "Target Plan" which will include a written plan or report which includes advice on one or more of the following areas: (i) income tax minimization, (ii) investment/asset repositioning, (iii) retirement security, (iv) life insurance, (v) estate planning, (vi) disability insurance, (vii) educational funding, (viii) other risk management or (ix) other (specified area requested by Client). FMN may recommend that the Client purchase and/or sell investments and enter into other financial transactions. Should the Client enter into said transactions with the Representative, Client understands that s/he, they, it shall be using the brokerage services of FMN Capital Corporation, a Broker-Dealer registered with the U.S. Securities and Exchange Commission (SEC), and a member of the Financial Industry Regulatory Authority (FINRA) and that FMNCC will receive brokerage commissions and transaction fees for effecting said transactions. In addition, a conflict of interest may exist because a Representative of FMN who is also a Representative of FMN Capital Corporation may, in addition to a portion of the planning fees, receive brokerage commissions as a consequence of acting as broker of such transactions. The amount of compensation received will be disclosed in the offering circular or other document describing such securities transaction.

CONSULTING: For certain Clients who wish to consult with FMN for the purposes of acquiring information concerning assets, indebtedness, present and future income,

insurance policies, the Client's desired financial goals and other related data, FMN may provide a written financial plan and/or analysis and recommendations in one or each of the following areas: cash flow management, tax planning, accumulation of wealth, risk management, retirement provisions and estate planning. Said recommendations shall be made based upon the goals and objectives provided by the Client. FMN will provide to the Client, on a quarterly basis, a newsletter and consolidated statement of the assets purchased as a result of the aforementioned recommendations. FMN may recommend that the Client purchase and/or sell investments and enter into other financial transactions. Should the Client enter into said transactions, Client understands that s/he, they, it shall be using the brokerage services of FMN Capital Corporation and that FMN Capital Corporation will receive brokerage commissions and transaction fees for effecting said transactions. In addition, a conflict of interest exists because a Representative of FMN who is also a Registered Representative of FMN Capital Corporation may, in addition to a portion of the consulting fee, receive a brokerage commissions as a consequence of acting as broker of such transactions. The amount of compensation received will be disclosed in the offering circular or other document describing such securities transaction.

HOURLY CONSULTING: FMN offers advice on specific financial concerns at an hourly rate. FMN may recommend that the Client purchase and/or sell investments and enter into other financial transactions. Should the Client enter into said transactions, Client understands that s/he, they, it shall be using the brokerage services of FMN Capital Corporation and that FMN Capital Corporation will receive brokerage commissions and transaction fees for effecting said transactions. In addition, a conflict of interest exists because a Representative of FMN who is also a Registered Representative of FMN Capital Corporation may, in addition to a portion of the consulting fee, receive a brokerage commissions as a consequence of acting as broker of such transactions. The amount of compensation received will be disclosed in the offering circular or other document describing such securities transaction.

NO-LOAD TRANSACTIONS: FMN regularly recommends that Clients invest in certain "No-load" Mutual Funds. All Mutual Fund transactions are executed with the knowledge and authorization of the Client. FMN is affiliated with FMN Capital Corporation, a Broker-Dealer registered with the SEC, and a member of FINRA and thus subject to the regulatory jurisdiction of FINRA in regard to the execution of securities transactions. To comply with FINRA requirements, all no-load mutual fund transactions effected by a Representative of FMN will be executed through FMN Capital Corporation or in an account established on a fully disclosed basis through an account established at Schwab, FISERV, FTC and/or FIAG. A transaction fee is charged by Schwab, FISERV, FTC and FIAG for these no-load fund transactions.

NO FEE: For certain Clients, FMN will provide an analysis and/or investment recommendations based on said Client's information concerning assets, indebtedness, present and future goals and other related data. FMN may recommend that the Client

purchase and/or sell investments and enter into other financial transactions. Should the Client enter into said transactions with the Representative, Client understands that s/he, they, it shall be using the brokerage services of FMN Capital Corporation which will receive brokerage commissions and transaction fees for effecting said transactions. In addition, a Representative of FMN who is also a Registered Representative of FMN Capital Corporation may receive brokerage commissions as a consequence of acting as broker of such transactions. The amount of compensation received will be disclosed in the offering circular or other document describing such securities transaction.

QUICKEN® CONSULTING: FMN consults with certain Clients for the purpose of assisting the Client with cash flow management by using Quicken®. FMN's representative will provide the following services: (i) Two meetings at client's home, (ii) monthly email tips/tricks for use in Quicken®, (iii) follow up with client one month into the program, and (iv) follow up six months after utilizing the program and review of budget.

QUICKEN®BOOKKEEPING CONSULTING: FMN consults with certain Clients for the purpose of assisting Client with cash flow management by using Quicken® and providing the following services: (i) install and register Quicken on FMN's systems, (ii) set up Bank & Credit Card accounts, (iii) input budget, (process Client's monthly bills, and (iv) set up bill pay.

QUICKBOOKS®BOOKKEEPING CONSULTING: FMN consults with certain Clients for the purpose of assisting Client with preparation and analysis of Clients' financial statements by using Quickbooks® and providing the following services: (i) install Quickbooks® on FMN's systems, (ii) link bank & credit card accounts to Quickbooks and/or receive duplicate statements, (iii) itemize business expenses and income, and (iv) create and manage financial statements.

Income Tax Preparation: FMN consults with certain Clients (individuals, partnerships, trusts, estates and corporations) for the purpose of assisting Client with the preparation of income tax returns.

Item 5 – Fees and Compensation

The specific manner in which fees are charged by FMN is established in a client's written agreement with FMN. FMN will generally bill its fees on a quarterly basis (for money management and quarterly services) and upon completion of services for all other services. FMN will bill clients for its services in arrears. Clients may also elect to be billed directly for fees or to authorize FMN to directly debit fees from client accounts. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any earned, unpaid fees will be due and payable.

MANAGEMENT: FMN charges management fees for those Clients who participated under Management prior to July 1, 2002 as follows: The Client will be charged a start-up fee of two (2) times the management fee based on the total equity in all managed accounts Client has with FMN for this first year and any custodial fees (if applicable). After the first year, the following annual fee will be charged: Minimum annual fee of \$1,000 or (1) \$0 - \$200,000 1.00% annual fee; (2) \$200,001 - \$500,000 .80% annual fee; (3) \$500,001 - \$1,000,000 .70% annual fee; (4) over \$1,000,000 .60% annual fee (whichever is larger). Fees are negotiable for accounts that are simplistic by nature and require little reallocation.

FMN charges management fees for those Clients who participate under Management after July 1, 2002 as follows: The Client will be charged a start-up fee of two (2) times the management fee based on the total equity in all managed accounts Client has with FMN for the first year and any custodial fees (if applicable). After the first year, the following annual fee will be charged: The minimum account size shall be \$200,000; (1) \$200,000 - \$500,000 .90% annual fee; (2) \$500,001 - \$1,000,000 .80% annual fee; (3) over \$1,000,000 .70% annual fee; (4) over \$3,000,000 negotiable (whichever is larger).

FMN charges management fees for those Clients who participate under Management after September 30, 2011 whose portfolios have a greater degree of complexity as follows: The Client will be charged a start-up fee of two (2) times the management fee based on the total equity in all managed accounts Client has with FMN for the first year and any custodial fees (if applicable). After the first year, the following annual fee range of .60% to 1.25% will be charged. Portfolios over \$3,000,000 are negotiable.

MODEL PORTFOLIO MANAGEMENT: FMN charges management fees for those Clients who participate under Model Portfolio Management as follows: The minimum account size shall be \$50,000. The client will be charged 1.25% annually (minimum of \$156.25 per quarter) and may incur transaction fees. One-fourth of the annual fee will be charged quarterly. Quarters end on the last day of March, June, September and December. Billing for a quarter's management will occur at the end of the quarter. The equity used in the calculation will be the total equity at the end of the preceding quarter plus any withdrawals during the quarter. The fees for the first quarter under management will be pro-rated.

FM6 MANAGEMENT: FMN charges management fees for those Clients who participate under FM6 Management as follows: The minimum account size shall be \$100,000. The account will be charged 0.50% on the total equity in all managed accounts Client has under the FM6 program.

PLANNING: FMN has a fee range of \$500.00 to \$25,000.00 for the report, the lesser of 50% of the fee or \$500.00 upfront and the balance upon delivery. FMN refunds any part of its fees to an unsatisfied Client within five (5) business days of receipt of payment.

CONSULTING: FMN has a fee range of \$500.00 to \$25,000.00 for the report, the lesser of 50% of the fee or \$500.00 upfront and the balance upon delivery. FMN refunds any part of said fee to an unsatisfied Client within five (5) business days of receipt of payment. In addition to the fee for the report, FMN will charge a consulting fee which ranges from \$500.00 to \$25,000.00 annually billed to the Client on a quarterly basis which covers an agreeable period of consulting.

HOURLY CONSULTING: FMN consulting fee is \$300.00 per hour. FMN will bill the Client after the services have been rendered and is payable upon receipt of said services. There are no refunds available for this service and said services may be terminated at any time.

NO-LOAD TRANSACTIONS: FMN does not charge the client a fee for these services.

NO FEE: FMN will not charge the Client for these services.

QUICKEN® CONSULTING: FMN has a fee range of \$300.00 to \$500.00 for this service, the lesser of 50% of the fee or \$500.00 upfront and the balance after second visit. FMN will bill the Client after the services have been rendered and is payable upon receipt of said services. There are no refunds available for this service and said services may be terminated at any time. A Representative of FMN will receive a portion of said fee.

QUICKEN®BOOKKEEPING CONSULTING: FMN has a fee range of \$500 - \$3,500 per month for this service. FMN will bill the Client on a monthly basis beginning the month after the Client signs the agreement. There are no refunds available for these services and said services may be terminated at any time. A Representative of FMN will receive a portion of said fee.

QUICKBOOKS®BOOKKEEPING CONSULTING: FMN has a fee range of \$125.00 - \$500.00 per month for this service. FMN will bill the Client on a monthly basis beginning the month after the Client signs the agreement. There are no refunds available for this service and said services may be terminated at any time. A Representative of FMN will receive a portion of said fee.

Income Tax Preparation: FMN's fees for this service various depending on the complexity of the returns and forms required to be filed. The fee will be quoted to the Client before the services are rendered. FMN will bill the Client upon completion of the services. There are no refunds available for this service and said services may be terminated at any time. A Representative of FMN will receive a portion of said fee.

For “Management” and “Model Portfolio Management” services, one-fourth of the annual fee will be charged quarterly. Quarters end on the last day of March, June, September and December. Billing for a quarter's management will occur at the end of the quarter. The equity used in the calculation will be the total equity at the end of the preceding quarter plus any withdrawals during the quarter. The fees for the first quarter under management will be pro-rated. It is the Client's responsibility to verify the accuracy of the fee calculations. The Custodian(s) will not determine whether or not fees were properly calculated.

For “FM6 Management” services, one-half of the annual fees will be charged semi-annually. Billing periods end on the last day of June and December. Billing for a period's management will occur after the end of the period. The fees for the first period under management will be pro-rated. The fee will be one-half the annual fee multiplied by the account's equity for the period. The equity used in the calculation will be the total equity at the end of the preceding period plus any withdrawals during the period.

For “Consulting” services, quarterly fees are due on the first day following each quarter end during the consulting period. Quarters begin on the first day of January, April, July and October. There is no refund of any portion of the quarterly consulting fee to the Client.

For “Income Tax Preparation” services, fees are due upon completion of services. There is no refund of any portion of the fee to the Client.

For all services, it is the Client's responsibility to verify the accuracy of the fee calculations. The Custodian(s) will not determine whether or not fees were properly calculated. If FMN uses the brokerage services of FMN Capital Corporation, the Client understands that a conflict of interest exists because FMN Capital Corporation will receive brokerage commissions and transaction fees for effecting transactions. In addition, a conflict of interest exists because a Representative of FMN who is also a Representative of FMN Capital Corporation, may receive a commission as a result of his/her acting as broker of such transactions. The amount of compensation received will be disclosed in the offering circular or other document describing such securities transaction.

FMN's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to FMN's fee, and FMN shall not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that FMN considers in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

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

FMN does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

Item 7 – Types of Clients

Financial Management Network Inc. (“FMN”) provides portfolio management services to individuals, high net worth individuals, trusts, corporate pension and profit-sharing plans.

For certain accounts opened by FMN, a minimum account balance is required:

MANAGEMENT: For accounts opened after July 1, 2002, a minimum account size of \$200,000 is required.

MODEL PORTFOLIO MANAGEMENT: The minimum account size of \$50,000 is required.

FM6 MANAGEMENT: The minimum account size of \$100,000 is required.

There are no minimum account size requirements on remaining services.

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

Financial Management Network, Inc. utilizes several methods of analysis to develop and implement an asset allocation strategy for clients. Through the financial planning process and client interviews, Financial Management Network, Inc. can customize allocations to meet the specific needs of the client. We believe that keeping fees reasonable and transactions to a minimum will benefit the client long term. Thus, our strategies typically involve rebalancing annually as needed and adjusting our assets only when replacement of a fund or investment is warranted as described below. Financial Management Network, Inc. is careful to communicate to each client that investing in securities involves risk of loss that clients should be prepared to bear. Financial Management Network, Inc. utilizes the

following strategies to mitigate that risk and meet the financial goals of our clients through proper investment management.

1. **Strategic Asset Allocation:** Strategic asset allocation reflects a logical, static, strategic asset allocation for a hypothetical long-term investor who is not using active asset allocation. It is based on our evaluation of the historical long-term risk and return relationships of the asset classes, and what we consider to be realistic and reasonable expectations going forward. It is the starting point for our active asset allocation process. First we identified risk tolerances, defined as maximum losses over 3 to 5 year periods. Then we looked at many different combinations of asset classes over many historical periods. Through numerous iterations of adjusting the asset class mix, and looking at the results over various historical periods that reflected differing circumstances, we come up with strategic core allocations that:
 - Have very high statistical probabilities of not violating the stated risk tolerance for each model. (Though the probabilities are in the high 90% range, they are not 100%—there is no guarantee that the risk tolerance will not be violated going forward.)
 - Are diversified enough to provide some smoothing of performance.
 - Have delivered, over the average 5 to 10-year periods, a higher return than a simple S&P 500/bond mix with slightly less variability. (In the case of equity portfolios, a higher return with less variation than the S&P 500.)
 - Make common sense as we look forward.
2. **Active Management:** Financial markets are quite efficient—most assets are priced fairly (based on all publicly available information) most of the time. This means that most of the time it is difficult to "out-smart" the market. However, the market does, occasionally, offer investors exceptional opportunities. Capturing a portion of the return from these opportunities, and locking them in for a full market cycle, can result in market-beating performance over a cycle. Our active asset allocation process (decisions to invest differently from the core strategic allocation), emphasizes investing for a shorter time period in undervalued asset classes, or asset classes poised for the highest growth. This is primarily accomplished in the "Specialty" asset class of portfolios and typically represents 5% to 25% of a portfolio with holding periods typically between 3 months and 2 years. Financial Management Network, Inc. identifies assets for active management by applying a consistent approach to identifying undervalued assets. This is part of our discipline. Our research suggests two important factors:

- An extreme undervaluation (or overvaluation) relative to alternative/comparable asset classes. In measuring this undervaluation, we first compare equity assets to the S&P 500 and then peer groups.
- The stage of the "market cycle" or overall economy can enhance or detract from the valuation argument.

3. **Fund Selection and Implementation:** After we have determined which asset classes offer value, we then turn to fund and individual asset selection. Choosing the right investments is important. Financial Management Network, Inc. primarily invests in mutual funds, and exchange traded funds given the transparency and access to research. On occasion, we will invest in individual stocks, bonds, and alternative investments such as hedge funds or limited partnerships if we feel all our due diligence can be satisfied and it meets the client's allocation needs. Even within a single asset class, performance can vary widely. Occasionally a fund choice alters our asset allocation strategy. If we have a very high degree of confidence in a particular fund manager, we may allocate slightly more to that manager's asset class. On the other hand, if there are no attractive funds in an attractive asset class, we may allocate less than we ideally would. Additionally, a fund that is chosen to represent a specific asset class may not invest all of its assets there. While some asset allocation approaches would call for the sale of a fund that strayed from the style for which it was chosen, we are comfortable giving talented managers some room to move. The following are criteria Financial Management Network, Inc. uses to identify skilled mutual fund managers:

- **Performance:** Our first level of fund analysis focuses on the manager's performance. We are looking for long, consistent records of outperformance relative to peers. We like to have at least a five-year record, and are careful only to compare similar funds. (Returns for various style categories can differ widely, making it erroneous to draw conclusions about manager skill from comparisons of funds in different style categories.) However, as we all know, past performance is no guarantee of future returns. That's why we spend a great deal of time trying to understand managers' investment philosophies, getting to know the dynamics of the portfolio management team, and determining how successful managers have added value. We also assess managers' personal characteristics against those that our many years of experience have shown us contribute to investment success. Fund selection (like asset allocation) is a combination of art and science. Performance is a screening mechanism, but there's more to picking funds than hot records. A number of factors influence the number of funds and the size of positions.

For example, our allocations are affected by how many funds in which we have a high degree of confidence are available in a given asset class.

Occasionally new funds come along that look very promising, but we already own good funds in the same asset class. In this case, rather than recommending selling all of the existing fund, we may advocate taking a small position in the new fund. If we don't have a high degree of confidence in a single manager in a specific asset class, we may use smaller positions in two funds or we may use an index fund.

- Expenses: Financial Management Network, Inc. is sensitive to the expenses of a fund and is looking for reasonable expenses. We define reasonable based on the average expenses in the fund's category and whether the expenses are justified based on the strategy the manager is utilizing.
- Turnover: Financial Management Network, Inc. is sensitive to the tax efficiency or inefficiency of a particular fund. We may use specific funds only in qualified plans based on the turnover rate.

When we buy a fund, we have no predetermined holding period. How long we maintain our position depends on how the asset class performs relative to its fundamentals and to other asset classes, and the continued validity of the fundamental reason for the allocation. We sell funds: to adjust asset allocations, if we lose confidence in a manager, if we think there is a better alternative, if the management team has changed detrimentally, if the style has shifted outside the original asset class.

Funds we recommend as alternatives should provide similar, but not identical returns. Alternatives are suitable for clients who:

- Can't meet the minimums for our first choice
- Already have positions in the alternative funds and don't want to sell for tax reasons, and/or
- Can't get into funds that are closed.

4. **Comprehensive Financial Plan:** Through the financial planning process, Financial Management Network, Inc. understands the unique needs of the client. Financial Management Network, Inc. can then customize an allocation in attempts to target specific goals such as; mitigating taxes, financial independence, and generating income. The comprehensive financial plan gives Financial Management Network, Inc. the proper knowledge of the client's needs and forum to communicate all the available strategies. If a comprehensive financial plan is not done, Financial Management Network, Inc. is careful to interview each client to assess risk tolerance,

expectations for return, liquidity needs, and other qualitative information to better customize a suitable allocation. It's through these processes that Financial Management Network, Inc. communicates the inherent risks associated with investing.

5. **Principle Risks:** This section describes the principal risks associated with Financial Management Network, Inc.'s principal investment strategies. You may lose money by investing with Financial Management Network, Inc.. The likelihood of loss may be greater if you invest for a shorter period of time. Investors should have a long-term perspective and be able to tolerate potentially sharp declines in value.

Market conditions — The prices of, and the income generated by, the mutual funds, exchange traded funds, and common stocks and other securities held in the allocation may decline due to market conditions and other factors, including those directly involving the issuers of securities held by the underlying funds.

Investing in growth-oriented stocks — Growth-oriented stocks may involve larger price swings and greater potential for loss than other types of investments.

Investing outside the United States — Securities of issuers domiciled outside the United

States, or with significant operations outside the United States, may lose value because of political, social or economic developments in the country or region in which the issuer operates. These securities may also lose value due to changes in the exchange rate of the country's currency against the U.S. dollar. Securities markets in certain countries may be more volatile and/or less liquid than those in the United States. Investments outside the United States may also be subject to different settlement and accounting practices and different regulatory, legal and reporting standards than those in the United States. These risks may be heightened in connection with investments in developing countries.

Investing in developing countries — Investing in countries with developing economies

and/or markets may involve risks in addition to and greater than those generally associated with investing in developed countries. For instance, developing countries may have less developed legal and accounting systems than those in developed countries. The governments of these countries may be more unstable and more likely to impose capital controls, nationalize a company or industry, place restrictions on foreign ownership and on withdrawing sale proceeds of securities

from the country, and/or impose punitive taxes that could adversely affect the prices of securities. In addition, the economies of these countries may be dependent on relatively few industries that are more susceptible to local and global changes. Securities markets in these countries can also be relatively small and have substantially lower trading volumes. As a result, securities issued in these countries may be more volatile and less liquid than securities issued in countries with more developed economies and/or markets. Because these markets may not be as mature, there may be increased settlement risks for transactions in local securities.

Investing in small companies — Investing in smaller companies may pose additional risks. For example, it is often more difficult to value or dispose of small company stocks and more difficult to obtain information about smaller companies. In addition, the prices of these stocks may be more volatile than stocks of larger, more established companies.

Investing in bonds — Rising interest rates will generally cause the prices of bonds and other debt securities to fall. Longer maturity debt securities may be subject to greater price fluctuations than shorter maturity debt securities. Bonds and other debt securities are subject to credit risk, which is the possibility that the credit strength of an issuer will weaken and/or an issuer of a debt security will fail to make timely payments of principal or interest and the security will go into default.

Investing in securities backed by the U.S. government — Securities backed by the U.S. Treasury or the full faith and credit of the U.S. government are guaranteed only as to the timely payment of interest and principal when held to maturity. Accordingly, the current market values for these securities will fluctuate with changes in interest rates. FMN utilizes funds that may also invest in debt securities and mortgage-backed securities issued by federal agencies and instrumentalities that are not backed by the full faith and credit of the U.S. government. These securities are neither issued nor guaranteed by the U.S. government.

Investing in municipal bonds of issuers within the state of California — Because Financial Management Network, Inc. invests in funds purchasing securities of issuers within the state of California, these funds are more susceptible to factors adversely affecting issuers of California securities than a comparable municipal bond mutual fund that does not concentrate its investments in a single state. For example, in the past, California voters have passed amendments to the state's constitution and other measures that limit the taxing and spending authority of California governmental entities, and future voter initiatives may adversely affect

California municipal bonds. More detailed information about the risks of investing in California municipal securities is contained in each fund's prospectus.

Management — The investment advisers to the mutual funds are actively managing each fund's investments. Consequently, the allocation is subject to the risk that the methods and analyses employed by the investment adviser in this process may not produce the desired results. This could cause the fund to lose value or its results to lag relevant benchmarks or other funds with similar objectives. Your investment in equities is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation.

Item 9 – Disciplinary Information

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

Item 10 – Other Financial Industry Activities and Affiliations

FMN is actively engaged in business other than giving investment advice. Said business includes tax preparation provided only by Representatives of FMN who hold an Enrolled Agent (EA) designation. Since FMN is a corporation and its Representatives who are EAs are also providing other services offered by FMN, it becomes difficult to give an appropriate time spent on this area. Said individuals work on this business activity primarily between January and April of each year. In addition, FMN and its related persons sell products or services other than giving investment advice to Clients. Said product is fixed life, disability and medical insurance (both individual and group), and Fire and Casualty. Since FMN is a corporation which has a division that primarily works with the life and disability insurance, it becomes difficult to give an appropriate time spent on this area. Said individuals work on this division's business full time.

FMN and/or Representatives of FMN have material arrangements as Registered Representatives with FMN Capital Corporation as Broker-Dealer, and Spectrum Asset Management as Other Investment Adviser and directly with various insurance companies as either agents or general agents. FMN has a list on file of the insurance companies that Representatives have arrangements with. From time to time, Representatives of FMN who are also Registered Representatives of FMN Capital Corporation, agents or general agents of insurance firms, may receive economic benefit for product efforts. Clients' needs always come first. Full disclosure will be provided at the time of solicitation pursuant to Rule 206(4)-3 of the Investment Advisers Act of 1940.

Item 11 – Code of Ethics

FMN has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at FMN must acknowledge the terms of the Code of Ethics annually, or as amended.

FMN anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which FMN has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which FMN, its affiliates and/or clients, directly or indirectly, have a position of interest. FMN's employees and persons associated with FMN are required to follow FMN's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of FMN and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for FMN's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of FMN will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of FMN's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between FMN and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with FMN's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. FMN will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any

exceptions will be explained on the Order.

FMN's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting David Schofield.

It is FMN's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. FMN will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

Item 12 – Brokerage Practices

Clients may specify which broker-dealer to use or FMN may make recommendations. Generally, these recommendations are based on FMN's perception of the breadth of services offered and quality of execution. However, the Client may pay commissions or fees that are higher than those that may be obtained from elsewhere for similar services. Should Client chose to implement through FMN's Investment Advisory Representatives, they do so with the understanding that said Investment Advisory Representatives may also be a Registered Representative of FMN Capital Corporation as Broker-Dealer which may cause a conflict of interest.

Item 13 – Review of Accounts

For certain Clients who contract with FMN to produce a written financial plan and for quarterly consulting, FMN will annually review said Clients' position and update balance sheet, cash flow, tax projections, and make recommendations for the coming year upon request. FMN calls these reviews "APRs" (Annual Plan Reviews). An offer is sent to the client each year, however, usually the review is done on a bi-annual basis (due to the fact that in many cases the clients' financial situation has not changed in a year). These reviews are typically handled by an Investment Advisory Representative of Financial Management Network, Inc. Investment Advisory Representatives review the accounts for their own Clients.

For Clients who have received investment recommendations where sole compensation is derived from commissions on securities transactions by the Representative as a Registered Representative of FMN Capital Corporation, FMN will update said recommendations upon request. These reviews are handled by a Representative of FMN. Representatives review the accounts for their own Clients.

For clients who contract with FMN for management services, FMN reviews said Clients' position and runs internal rates of return and comparisons to alternative investments at least annually (more frequently if market conditions so dictate). These reviews are handled by the IA Principal, the Money Management Operations Manager and a Representative of FMN (the IA Principal and Money Management Operations Manager reviews each account, the Representative will meet with their own clients with the IA Principal's recommendations).

As stated above, FMN will review our clients' Money Management accounts more frequently than annually if market conditions so dictate. Said market conditions could be severe price fluctuations in the market, legislative changes, fund management changes and fund policy changes.

Item 14 – *Client Referrals and Other Compensation*

Pursuant to Rule 206(4)-3 under the Investment Advisers Act of 1940, Financial Management Network, Inc. ("FMN") discloses that it has entered into a referral arrangement for compensation with Spectrum Asset Management, Inc. (SAM), an Investment Adviser registered with the SEC. FMN refers SAM's services to certain Clients who have contract with FMN to provide its management services. Said arrangement consists as follows: (1) FMN imposes a minimum of \$500,000 in total assets to be placed under the SAM relationship; (2) FMN charges said Clients' accounts as follows: First \$1,000,000 1.00% annual fee; thereafter .95% annual fee, 1/4 of which is paid quarterly; (3) FMN will pay SAM for said account as follows: First 1,000,000 .40% annual fee; thereafter .35% annual fee, 1/4 of which is paid quarterly to SAM; and (4) Clients will receive a copy of a Disclosure Document along with both SAM's and FMN's latest copy of Part II of Form ADV which have been filed with the SEC pursuant to Rule 204-3 under the Investment Adviser Act of 1940 and Code 260.236 under the Code of Regulations of the Registered Investment Adviser Regulation Division in the Department of Corporations of the State of California at the time of solicitation.

FMN or related person as broker or agent effects securities transactions for compensation for any Client. If the Client enters into one or more transactions recommended by a Representative of FMN, a conflict of interest exists because the individual effecting the transaction will receive a brokerage commission as a consequence of their acting as agent of such investment transaction directly from FMN Corporation, a Broker-Dealer. The

amount of compensation received will be disclosed in the offering circular or other document describing such investment or transaction.

Item 15 – Custody

According to the Investment Advisors Act Rule 206(4)-2 FMN is deemed not to have custody of certain client securities because FMN deducts fees from client assets. Client assets and securities are held at independent, qualified custodians.

Clients should receive at least quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains the client's investment assets. FMN also sends statements to money management clients on a quarterly basis. FMN urges clients to carefully review official custodial records and compare the account statements with those sent by FMN.

Item 16 – Investment Discretion

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

When selecting securities and determining amounts, FMN observes the investment policies, limitations and restrictions of the clients for which it advises.

Investment guidelines and restrictions must be provided to FMN in writing.

Item 17 – Voting *Client* Securities

Proxy Voting Policy - FMN will not vote or give any advice about how to vote proxies for securities held in the Account [in accordance with FMN's policies regarding proxy voting].

Item 18 – Financial Information

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about FMN's financial condition. FMN does not collect more than \$500 in fees per client, six months or more in advance of providing services to its clients and, therefore, is exempt from this requirement. FMN, however, has no financial

commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.