



## **Financial Management Network, Inc.**

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**3/21/2013**

### **FORM ADV PART 2 BROCHURE**

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 or [dschofield@fmncc.com](mailto: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.

Additional information about Financial Management Network, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Financial Management Network, Inc. is 110454.

Financial Management Network, Inc. is a Registered Investment Adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

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## Advisory Business

Form ADV Part 2A, Item 4

Financial Management Network, Inc., a California Corporation, is a full-service, comprehensive financial advisory firm working to assist individuals and entities (trusts, estates, partnerships, pension and profit sharing plans and corporations) to achieve their financial goals.

Financial Management Network, Inc. was formed in 1991 by Matthew S. Merwin, CFP®, EA. The Principal Owner of Financial Management Network, Inc. is the Merwin Family Trust, dated April 5, 2001.

Financial Management Network, Inc. provides its clients (i.e., individuals, business entities, pension and profit sharing plans, estates, partnerships and trusts) with financial planning and related consulting services, business consulting, Tax Preparation, and discretionary (primarily) and nondiscretionary investment management services.

**MANAGEMENT:** For certain Clients, Financial Management Network, Inc. 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 in Client's account (the "Account") at Financial Management Network, Inc.'s discretion and without first consulting Client. Such discretionary authority shall be limited to the buying and selling of securities. Client will notify Financial Management Network, Inc. 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 Financial Management Network, Inc. with such additional information as Financial Management Network, Inc. may request from time to time to assist it in managing the Account. The Client acknowledges that Financial Management Network, Inc. cannot adequately perform its services for the Client unless the Client diligently performs his/her/their/its responsibilities. The client authorizes Financial Management Network, Inc. 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 Financial Management Network, Inc.'s services. Financial Management Network, Inc. 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 past performance referred to by Financial Management Network, Inc. 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, Financial Management Network, Inc. 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 Financial Management Network, Inc.'s discretion. Such discretionary authority shall be limited to the buying and selling of securities. Client will notify Financial Management Network, Inc. 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 Financial Management Network, Inc. with such additional information as Financial Management Network, Inc. may request from time to time to assist it in managing the Account. The Client acknowledges that Financial Management Network, Inc. cannot adequately perform its services for the Client unless the Client diligently performs his/her/their/its responsibilities. The client authorizes Financial Management Network, Inc. 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 Financial Management Network, Inc.'s services. Financial Management Network, Inc. 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 Financial Management Network, Inc. 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., Financial Management Network, Inc. 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 Financial Management Network, Inc.'s discretion. Such discretionary authority shall be limited to the buying and selling of securities. Client will notify Financial Management Network, Inc. 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 Financial Management Network, Inc. with such additional information as Financial Management Network, Inc. may request from time to time to assist it in managing the Account. The Client acknowledges that Financial Management Network, Inc. cannot adequately perform its services for the Client unless the Client diligently performs his/her/their/its responsibilities. The client authorizes Financial Management Network, Inc. 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 Financial Management Network, Inc.'s services. Financial Management Network, Inc. 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 Financial Management Network, Inc. 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, Financial Management Network, Inc. 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). Financial Management Network, Inc. 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 FMN Capital Corporation will receive brokerage commissions and transaction fees for effecting said transactions. In addition, a conflict of interest may exist because a Representative of Financial Management Network, Inc. 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 Financial Management Network, Inc. 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, Financial Management Network, Inc. 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. Financial Management Network, Inc. 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. Financial Management Network, Inc. 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 Financial Management Network, Inc. who is also a 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:** Financial Management Network, Inc. offers advice on specific financial concerns at an hourly rate. Financial Management Network, Inc. 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 Financial Management Network, Inc. who is also a 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:** Financial Management Network, Inc. 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. Financial Management Network, Inc. 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 Financial Management Network, Inc. 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, Financial Management Network, Inc. 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. Financial Management Network, Inc. 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 FINANCIAL MANAGEMENT NETWORK, INC.CC which will receive brokerage commissions and transaction fees for effecting said transactions. In addition, a Representative of Financial Management Network, Inc. who is also a 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:** Financial Management Network, Inc. consults with certain Clients for the purpose of assisting the Client with cash flow management by using Quicken®. Financial Management Network, Inc.'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:** Financial Management Network, Inc. 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 of Financial Management Network, Inc.'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:** Financial Management Network, Inc. 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 Financial Management Network, Inc.'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:** Financial Management Network, Inc. consults with certain Clients (individuals, partnerships, trusts, estates and corporations) for the purpose of assisting Client with the preparation of income tax returns.

With the exception of the Model Portfolio Management accounts, all of our fee based management accounts are tailored to the individual needs of our clients. In most cases, Financial Management Network, Inc. has produced a Financial Plan for the client and the design of the portfolio is dictated by the direction of the plan.

Clients can impose a restriction on the account that all transactions must have client's prior approval before a trade is placed in the account.

Financial Management Network, Inc. does not participate in wrap fee programs.

Financial Management Network, Inc. provides investment advice to over 862 clients with over \$432,140,500 assets under management as of September 30, 2012. Of the \$432,140,500 assets under management, Financial Management Network, Inc. manages \$413,396,741 on a discretionary basis and the remaining \$18,743,759 on a non-discretionary basis.

### ***Fees and Compensation***

Form ADV Part 2A, Item 5

Financial Management Network, Inc. offers investment advisory services for a percentage of assets under management, hourly charges, quarterly charges and fixed fees. Related accounts can be consolidated for fee purposes.

Management portfolios: Financial Management Network, Inc. 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 Financial Management Network, Inc. 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.

Financial Management Network, Inc. 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 Financial Management Network, Inc. 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).

Financial Management Network, Inc. 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 Financial Management Network, Inc. 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.

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. There is no refund of any portion of the management fee to the client.

**Model Portfolio Management:** Financial Management Network, Inc. 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. There is no refund of any portion of the management fee to the client.

**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 .50% on the total equity in all managed accounts Client has under the FM6 program. 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. There is no refund of any portion of the management fee to the client.

**Planning fees:** Financial Management Network, Inc. has a fee range of \$500 to \$25,000 for the plan report, the lesser of 50% of the fee or \$500 upfront and the balance due upon delivery of the plan. Financial Management Network, Inc. refunds any part of said fee to an unsatisfied client within five (5) business days of receipt of payment.

**Quarterly Consulting:** Financial Management Network, Inc. has a fee range of \$500 to \$25,000 for the plan report, the lesser of 50% of the fee or \$500 upfront and the balance is due upon delivery of the plan. Financial Management Network, Inc. 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, Financial Management Network, Inc. will charge a consulting fee which ranges from \$500 to \$25,000 annually billed to the client on a quarterly basis which covers an agreeable period of consulting. 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.

**Hourly Consulting:** Financial Management Network, Inc. offers advice on specific financial concerns at a cost of \$300 per hour. The client will be billed after the services have been rendered and fees are payable upon receipt of invoice. There are no refunds available for this service to the client.

**Quicken® Consulting:** Financial Management Network, Inc. has a fee range of \$300 to \$500 for this service, the lesser of 50% of the fee or \$500 upfront and the balance at the end of the service. The client will be invoiced after the services have been rendered and is payable upon receipt. There are no refunds available for this service.

**Quicken® Bookkeeping Consulting:** Financial Management Network, Inc. has a fee range of \$500 to \$3,500 per month for this service. The client will be billed on a monthly basis beginning the

month after the client signs the agreement. There are no refunds available for this service.

QuickBooks® Bookkeeping Consulting: Financial Management Network, Inc. has a fee range of \$125 to \$500 per month for this service. The client will be billed on a monthly basis beginning the month after the client signs the agreement. There are no refunds available for these services.

Income Tax Preparation: Financial Management Network, Inc.'s fees for this service vary depending on the complexity of the returns and forms required to be filed. A fee range 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.

Financial Management Network, Inc. deducts fees from clients' assets and bills clients for fees incurred. In both cases, the client receives a copy of the invoice at the end of the period which indicates the method of payment deduction from the account or direct pay. For those clients whose fees are deducted from their assets, Financial Management Network, Inc. will request said fees from the custodians three business days after the reports have been sent to the client.

The client can select either method of payment to Financial Management Network, Inc. for services rendered.

Fees are billed and deducted from clients' assets after the quarter end. The billed period does not exceed three months, so clients are billed four times a year. Fees for financial planning and other services are billed separately.

Custodian fees or mutual fund expenses are not applicable to Financial Management Network, Inc. Clients will incur brokerage and other transaction fees.

Other fees and/or expenses that may be charged to client accounts:

- Financial Management Network, Inc. utilizes independent, third-party custodians to safeguard and recordkeep investments. There is typically a nominal annual fee associated with their service, paid by the client to the custodian.
- Some mutual funds have instituted redemption fees, also referred to as "market timing fees", or "short-term trading fees". They are in place to discourage short-term trading, for example buying a fund and then selling it within 90 days, and are unlikely to apply to Financial Management Network, Inc. strategies. Custodians charge transaction fees for their services in buying and selling securities. The transaction fees, including a fee levied by the Securities and Exchange Commission and collected by the custodian, are nominal, flat fees, fully disclosed on trade confirmations. These fees are paid by the client.
- Mutual funds charge fees for their management services, known as the "expense ratio". The expense ratio will vary by investment and is fully disclosed in investment prospectus and reports.

Financial Management Network, Inc.'s advisory fees are billed at the end of the quarter (in arrears). All fees are considered fully earned until a written termination notice is received.

Investment Advisory Representatives may receive commissions for sales of securities or other investment products placed through FMN Capital Corporation as a Registered Representative including distribution or services ("trail") fees from the sale of mutual funds (also known as "12b-1 fees") and/or variable annuities. Due to the fact that FMN Capital Corporation is paid these trails and/or 12b-1 fees, the potential for an incentive to recommend investment products based on the compensation received, rather than on the client's needs is created. Although this incentive may exist, the Supervision Staff of Financial Management Network, Inc. and FMN Capital Corporation monitor all transactions initiated by Investment Advisory Representatives to insure that if any conflicts of interest exist they are disclosed and that said transactions are appropriate for the client. This potential conflict of interest is disclosed on this Brochure and on the advisory agreement the client signs. Financial Management Network, Inc. always puts the client's interests first when making any recommendations.

Clients are under no obligation to purchase or sell investments through FMN Capital Corporation as broker-dealer.

We do not normally reduce our advisory fees to offset the commissions or markups [or commissions to offset fees.]

See also "Brokerage Practices" in this Brochure.

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

Form ADV Part 2A, Item 6

Performance Based Fees and Side-By-Side Management are not applicable to Financial Management Network, Inc.

### ***Types of Clients***

Form ADV Part 2A, Item 7

Financial Management Network, Inc. generally provides investment advice to individuals, business entities, pension and profit sharing plans, estates, partnerships and trusts. Financial Management Network, Inc. imposes requirements for opening or maintaining an account as follows: For MANAGEMENT services provided prior to July 1, 2002, the client's minimum annual fee is \$1,000.00; for MANAGEMENT services provided after July 1, 2002 and September 30, 2011, the client's account size shall be a minimum of \$200,000.00; for MODEL PORTFOLIO MANAGEMENT services, the client's account size shall be a minimum of \$50,000.00; and for FM6 MANAGEMENT services, the client's account size shall be a minimum of \$100,000.00. All other services provided do not require a minimum account size to be opened or maintained.

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

Form ADV Part 2A, Item 8

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.

### ***Disciplinary Information***

Form ADV Part 2A, Item 9

Financial Management Network, Inc. and/or any personnel do not have any material disciplinary events to report.

Financial Management Network, Inc. has not been involved or named in any violation of an investment-related statute or regulation.

Financial Management Network, Inc. has not been the subject of any order, judgment or decree limiting its investment-related activity.

Financial Management Network, Inc. has not been involved in an administrative proceeding that caused an investment-related business to lose its authorization to do business.

Financial Management Network, Inc. has not been involved in a violation of an investment-related statute or regulation and has not been the subject of an order by a regulatory agency.

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

Form ADV Part 2A, Item 10

Most of the Registered Investment Advisory Representatives of Financial Management Network, Inc. are also Registered Representatives 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).

One Registered Investment Advisory Representative of Financial Management Network, Inc. has no Broker-Dealer affiliation.

Neither Financial Management Network, Inc. nor any of its management persons are registered or have pending registration, as a futures commission merchant, commodity pool operator, a commodity trading advisory, or an associated person of the foregoing entities.

Investment Advisory Representatives of Financial Management Network, Inc. may also be a Registered Representative 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). If an Investment Advisory Representative of Financial Management Network, Inc. recommends that the client use 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 in addition to receiving a portion of the advisory fee paid by the client, an Investment Advisory Representative of Financial Management Network, Inc. who is also a Registered 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.

Financial Management Network, Inc. and its related persons sell products or services other than giving investment advice to clients. Said products are fixed life, disability and medical insurance (both individual and group). Financial Management Network, Inc. and Investment Advisory Representatives of Financial Management Network, Inc. have material arrangements directly with various insurance companies as either agents or general agents. From time to time, Investment Advisory Representatives of Financial Management Network, Inc. who are also agents or general agents of insurance firms, may receive economic benefit for product efforts. Clients' needs always come first.

Investment Advisory Representatives of Financial Management Network, Inc. have a material arrangement with Mortgage Loan Centers, Inc., a California corporation and licensed California Real Estate Broker. Mortgage Loan Centers pays referral fees to Representatives. The client is not charged additional fees by Mortgage Loan Centers in order to pay said referral fees to Representatives. This arrangement creates no conflict of interest for the client.

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

Form ADV Part 2A, Item 11

Financial Management Network, Inc.'s Code of Ethics emphasizes the high standards of conduct that Financial Management Network, Inc. seeks to observe. As the Code of Ethics states, Financial Management Network, Inc. strives at all times to conduct its investment advisory business in strict accordance with its fiduciary obligations. It is Financial Management Network, Inc.'s policy to protect the interest of each of its clients and to place the client's interest first and foremost. Financial Management Network, Inc.'s fiduciary responsibilities include the duty of care, loyalty, honesty and good faith.

Financial Management Network, Inc.'s Code promotes the following principles:

- Financial Management Network, Inc. and its employees have a duty at all times to place the interests of clients first;
- Employees must conduct their personal securities transactions in a manner that avoids any actual or potential conflict of interest or any abuse of their positions of trust and responsibility;
- Employees may not use knowledge about pending or currently considered securities transactions for clients to profit personally;
- Information concerning the identity of security holdings and financial circumstances of clients is confidential; and
- Independence in the investment decision-making process is paramount.

Employees must maintain brokerage accounts with only those broker-dealers who provide transaction information to Financial Management Network, Inc. Employees must certify transactions and holdings on a quarterly basis. The Code also requires employees to comply with the federal securities laws and Financial Management Network, Inc.'s policies and procedures, to avoid conflicts of interest and to disclose all material facts concerning any conflict that does arise with respect to a client. The foregoing is qualified in its entirety by the complete Financial Management Network, Inc. Code of Ethics (as supplemented), which will be provided to any client or prospective client upon request.

Subject to the restrictions described above, Financial Management Network, Inc. and its employees may at any time hold, acquire, increase, decrease, dispose of or otherwise deal with positions in investments in which a client account may have an interest from time to time. Financial Management Network, Inc. has no obligation to acquire for a client account a position in any investment which it, acting on behalf of another client, or an employee, may acquire, and the client accounts shall not have the right of first refusal, co-investment or other rights in respect of any such investment. Financial Management Network, Inc., its employees and its affiliates may give advice and take action in the performance of their duties for some clients that may differ from advice given, or the timing or nature of actions taken, for other clients or for their proprietary or personal accounts.



## **Brokerage Practices**

Form ADV Part 2A, Item 12

Financial Management Network, Inc. does not have soft dollar arrangements with broker/dealers. Soft Dollar arrangements occur when a broker offers to provide certain products and services (pay soft dollars) to the investment manager in exchange for the manager directing trades to the broker.

Financial Management Network, Inc. does not use client brokerage commissions to obtain research or other products and services.

Financial Management Network, Inc. does not have an incentive to select or recommend a broker-dealer based on receiving their research or other products or services.

Financial Management Network, Inc. does not have soft dollar arrangements that would cause clients to pay higher commission than those charged by other broker-dealers.

Financial Management Network, Inc. does not use soft dollar benefits with any of its clients.

Financial Management Network, Inc. does not receive any products or services with client brokerage commissions (or markups or markdowns).

Financial Management Network, Inc. does not use direct client transactions to a particular broker-dealer in return for soft dollar benefits.

Financial Management Network, Inc. does not recommend broker-dealers based on receiving client referrals.

Financial Management Network, Inc. does not direct client transactions to a particular broker-dealer in return for client referrals.

Financial Management Network, Inc. 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 an Investment Advisory Representative of Financial Management Network, Inc., 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 Capital Corporation, Broker-Dealer. The amount of compensation received will be disclosed in the offering circular or other document describing such investment or transaction.

Financial Management Network, Inc. does not aggregate orders. Financial Management Network, Inc.'s clients' portfolios are designed to be individualized portfolios, therefore, aggregating orders would provide no benefit to the client.

## ***Review of Accounts***

Form ADV Part 2A, Item 13

For certain Clients who contract with Financial Management Network, Inc. to produce a written financial plan and for quarterly consulting, Financial Management Network, Inc. will annually review said Clients' position and update balance sheet, cash flow, tax projections, and make recommendations for the coming year upon request. Financial Management Network, Inc. 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 Investment Advisory Representative as a Registered Representative of FMN Capital Corporation, Financial Management Network, Inc. will update said recommendations upon request. These reviews are handled by an Investment Advisory Representative of Financial Management Network, Inc. Investment Advisory Representatives review the accounts for their own Clients.

For clients who contract with Financial Management Network, Inc. for fee based management services, Financial Management Network, Inc. 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 Investment Advisory Principal, the Money Management Operations Manager and an Investment Advisory Representative of Financial Management Network, Inc. (the Investment Advisory Principal and Money Management Operations Manager reviews each account, the Representative will meet with their own clients with the Investment Advisory Principal and Money Management Operations Manager's recommendations).

As stated above in Section A, Financial Management Network, Inc. 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.

For clients who have contracted with Financial Management Network, Inc. for quarterly consulting, the client will receive a Current Position Report. These reports are generated on a calendar quarterly basis.

For clients who have contracted with Financial Management Network, Inc. for fee based management services, the client will receive a Performance Client Statement, Current Position Report, Asset Allocation Pie-Chart, Fee Calculation Report, Fee Invoice, Market Summary and Newsletter. These reports are generated on a calendar quarterly basis. The Market Summary and Newsletter are written reports.

### ***Client Referrals and Other Compensation***

Form ADV Part 2A, Item 14

Pursuant to Rule 206(4)-3 under the Investment Advisers Act of 1940, Financial Management Network, Inc. discloses that it has entered into a referral arrangement for compensation with Spectrum Asset Management, Inc., an Investment Adviser registered with the SEC. Financial Management Network, Inc. refers Spectrum Asset Management, Inc.'s services to certain Clients who have contracted with Financial Management Network, Inc. to provide its management services. Said arrangement consists as follows: (1) Financial Management Network, Inc. imposes a minimum of \$500,000 in total assets to be placed under the Spectrum Asset Management, Inc. relationship; (2) Financial Management Network, Inc. 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) Financial Management Network, Inc. will pay Spectrum Asset Management, Inc. for said account as follows: First 1,000,000 .40% annual fee; thereafter .35% annual fee, 1/4 of which is paid quarterly to Spectrum Asset Management, Inc.; and (4) Clients will receive a copy of a Disclosure Document along with both Spectrum Asset Management, Inc.'s and Financial Management Network, Inc.'s latest copy of FORM ADV Part 2 Brochure 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.

## ***Custody***

Form ADV Part 2A, Item 15

According to the Investment Advisors Act Rule 206(4)-2 Financial Management Network, Inc. is deemed not to have custody of certain client securities because Financial Management Network, Inc. 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. Financial Management Network, Inc. also sends statements to money management clients on a quarterly basis. Financial Management Network, Inc. urges clients to carefully review official custodial records and compare the account statements with those sent by Financial Management Network, Inc.

## ***Investment Discretion***

Form ADV Part 2A, Item 16

Generally, Financial Management Network, Inc. is retained with respect to its individual accounts on a discretionary basis and is authorized to make the following determinations in accordance with the client's specified investment objectives without client consultation or consent before a transaction is effected:

- Which securities to buy or sell.
- The total amount of securities to buy or sell.
- The commission rates at which securities transactions for the client accounts are affected.
- The prices at which securities are to be bought or sold, which may include dealer spreads or mark-ups and transaction costs.

Investments for client accounts are managed in accordance with each client's stated investment objectives, strategies restrictions and guidelines.

Financial Management Network, Inc. assumes discretion over the account upon execution of the management agreement with the client.

Clients may specify which broker-dealer to use or Financial Management Network, Inc. may make recommendations. Generally, these recommendations are based on Financial Management Network, Inc.'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 the client chose to implement through Financial Management Network, Inc.'s Investment Advisory Representatives, they do so with the understanding that said Investment Advisory Representative may also be a Registered Representative of FMN Capital Corporation as Broker-Dealer. This presents a potential conflict of interest since the Investment Advisory Representative may receive a commission and/or transaction fees from acting as broker on a transaction as a Registered Representative of FMN Capital Corporation.

### ***Voting Client Securities***

Form ADV Part 2A, Item 17

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]. Clients will receive their proxies or other solicitations directly from their custodians or transfer agents.



***Financial Information***

Form ADV Part 2A, Item 18

Not applicable.