

## **Firm Brochure**

(Part 2A of Form ADV)

### **TAGGART FINANCIAL GROUP, INC.**

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This brochure provides information about the qualifications and business practices of TAGGART FINANCIAL GROUP, INC. If you have any questions about the contents of this brochure, please contact us at: 713-961-9888, or by email at: [phil@taggart.com](mailto:phil@taggart.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 TAGGART FINANCIAL GROUP, INC. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

## **January 2011**

## Material Changes

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### **Annual Update**

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

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

The Texas State Securities Board has not issued a final rule requiring advisers to provide a Firm Brochure in narrative “plain English” format. The new final rule is expected to specify mandatory sections and organization.

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### **Full Brochure Available**

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: 713-961-9888 or by email at: [phil@taggart.com](mailto:phil@taggart.com).

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# Advisory Business

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## **Firm Description**

TAGGART FINANCIAL GROUP, INC., founded in 1994, provides personalized confidential investment management to individuals, pension and profit sharing plans, trusts, estates, charitable organizations and small businesses.

Advice is provided through consultation with the client and may include:

- determination of financial objectives,
- identification of financial problems,
- cash flow management
- tax return reviews
- preparation for sale or purchase of business
- preparation for going public
- insurance reviews,
- investment management,
- education funding,
- retirement planning,
- and estate planning.

TFGI's advisory services include the purchase and sale of mutual funds, ETFs, and individual stocks and bonds for clients. Taggart Financial Group, Inc. (TFGI) will direct, in its sole discretion and without first consulting with Client, the investment and reinvestment of assets in Client's account. Currently, Lowell Q. Bass and Philip W. Taggart are authorized by TFGI to serve as Investment Advisor Representatives ("IARs"). IAR will be available to discuss Client's Account during normal business hours. IAR will be available to discuss Client's quarterly investment performance reports, to answer questions about investment and to determine whether there have been any changes in Client's personal or financial situation that would affect how IAR manages Client's account. Client agrees to supply TFGI with such additional information as TFGI may need from time to time, to assist it in managing the Account. In addition to being available for quarterly investment performance reviews, IAR is available to discuss Client's Account at any time Client wishes.

TAGGART FINANCIAL GROUP, INC. is strictly a fee-only investment management firm. The firm does not sell annuities, insurance, or other commissioned products. No commissions in any form are accepted. No finder's fees are accepted or paid.

TAGGART FINANCIAL GROUP, INC. uses

- Domestic and international equities
- Income
- Commodities
- Precious metals
- Cash or cash equivalents
- Exchange traded funds (ETFs)
- Mutual funds
- Short and double short ETFs for sectors and countries which invest in such assets

These are used to implement investment programs that benefit clients. Investment policies also provide for a target performance levels for the respective asset classes and for monitoring and measurement of such performance.

The “manager” or “investment manager” of the plan’s assets shall be an IAR of Taggart Financial Group, Inc. who shall at all times discharge his duties and invest the assets of the plan:

- Solely in the interest of the Client;
- For the exclusive purpose of providing benefits to Client;
- In a diverse manner so as to minimize the risk of large losses unless under the circumstance it is clearly prudent not to do so; and
- With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Investment advice is an integral part of money management . In addition, TAGGART FINANCIAL GROUP, INC. advises clients regarding cash flow, college planning, retirement planning, tax planning and estate planning.

Investment advice is provided, with the client making the final decision on investment selection. TAGGART FINANCIAL GROUP, INC. does not act as a custodian of client assets. The client always maintains asset control. Clients also may purchase securities recommended by TFGI from other brokers. TAGGART FINANCIAL GROUP, INC. places trades for clients under a limited power of attorney.

A written Statement of Investment Policy of each client's initial situation is developed with and provided to the client. Periodic reviews are also communicated to provide reminders of the specific courses of action that need to be taken. More frequent reviews occur but are not necessarily communicated to the client unless immediate changes are recommended.

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

The initial meeting, which may be by telephone, is free of charge and is considered an exploratory interview to determine the extent to which investment management may be beneficial to the client.

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### **Principal Owners**

Philip W. Taggart is 100% stockholder in this S Corporation.

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### **Types of Advisory Services**

TAGGART FINANCIAL GROUP, INC. provides investment supervisory services, also known as:

- asset management services;
- manages investment advisory accounts not involving investment supervisory services;
- furnishes investment advice through consultations; and issues, charts, graphs, formulas, or other devices which clients may use to evaluate securities.

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

TAGGART FINANCIAL GROUP, INC. provides a timing service..

As of December 2010, TAGGART FINANCIAL GROUP, INC. manages approximately \$ 26.5 million in assets for approximately 37 clients. approximately \$26.42 million is managed on a discretionary basis, and about \$80,000 is managed on a non-discretionary basis.

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### **Tailored Relationships**

- The goals and objectives for each client are documented in our client relationship management system.



- Investment policy statements are created that reflect the stated goals and objective.
- Clients may impose restrictions on investing in certain securities or types of securities.
- Agreements may not be assigned without client consent.

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### **Types of Agreements**

The following agreements define the typical client relationships.

- Client Agreement
- Statement of Investment Policy

During the discovery process, situations occur where the client is unaware of certain financial exposures or predicaments.

In the event that the client's situation is substantially different than disclosed at the initial meeting, a revised fee will be provided for mutual agreement. The client must approve the change of scope in advance of the additional work being performed when a fee increase is necessary.

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### **Financial Planning Agreement**

Taggart Financial Group, Inc. does not have a Financial Planning Agreement.

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### **Advisory Service Agreement**

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

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

Expenses Due to Client's Prior Ownership. IAR, at Client's request, will assist Client in determining whether there will be any termination fees or back-end surrender charges (and the amount thereof) for assets to be sold before or after transfer to Custodian for management by TFGI and IAR. Examples of

investments that could incur back-end surrender charges are mutual funds and insurance annuity contracts. TFGI and IAR do not assume responsibility for the accuracy of information obtained from third party custodians, insurance companies or anyone affiliated with or acting on behalf of such institutions or financial responsibility for the financial or tax implications of selling such investments. Client assumes responsibility for any such charges, fees or other financial or tax implications arising from the sale of such assets.

Potential Fee Reduction. In certain instances, TFGI may work with other Registered Investment Advisors to provide services. In such cases, TFGI will be compensated by the other Investment Advisors performing such services. Client will pay such other Investment Advisor pursuant to its own separate fee schedule. Client will be given any applicable ADV, policy guideline, management contract or any other documentation customarily provided by such other Investment Advisor including its customary information on services rendered and fees for such services before services begin. Such funds under management will serve to reduce Client's overall fee payable directly to TFGI pursuant to the Fee Schedule. Client will pay to TFGI the lowest rate indicated for the total amount of assets under management in either the taxable or tax deferred categories, as indicated by the nature of the Account.

- Advice to Other Clients. Client understands that TFGI and IAR will perform advisory and/or brokerage services for various clients. IAR may give advice or take actions for other clients that differ from the advice given or the action taken for this Account. Also, IAR may, but is not obligated to, purchase or sell, or recommend for purchase or sale, any security that IAR, TFGI or any of their affiliates may purchase or sell for their own accounts or the account of any other client, including members of the IAR's immediate family.
- Sweep Vehicle. Cash awaiting investment or reinvestment may be invested in one of the money market funds authorized for a TDAIS brokerage account pursuant to an automatic cash sweep program unless otherwise instructed by Client. If applicable, Client acknowledges receipt of a current prospectus for the applicable money market fund and understands that Client's execution of this Agreement serves as acknowledgement of receipt for such prospectus.
- Prospectuses. All prospectuses will be supplied to Client by the Custodian.

- Risk Acknowledgment. TFGI does not guarantee the future performance of the Account on any specific performance level, the success of the investment strategy or any investment decision, or TFGI's overall management of the Account. Client understands that investment decisions made for Client's Account by IAR are subject to various market, currency, economic, political and business risks and that these investment decisions will not always be profitable. TFGI will manage only the securities, cash and property held in the Client's Account. TFGI will not be liable to Client for any loss that Client may suffer by reason of any investment decision made, or other action taken or omitted, in good faith by TFGI with that degree of care, skill, prudence and diligence that a prudent person acting in a fiduciary capacity would use in the same or similar circumstances.
- Independent Functions. Client acknowledges that neither TFGI nor IAR, nor their employees or affiliates, are agents of Custodian nor of any of its affiliates and that no party shall be responsible for any act or omission of another party or its agents or employees. TFGI will not be responsible for any loss arising from TFGI's reliance on instructions received from Client. TFGI will not be responsible for any act or failure to act by Custodian, any broker or dealer to whom TFGI directs instructions for the Account or by any other third party. Federal and state securities laws impose liabilities under certain circumstances on persons who act in good faith; and, therefore, nothing in this Agreement will waive or limit any rights Client may have under those laws.
- TFGI is governed by the laws of the State of Texas.
- Tax Qualified Plans. Client represents that it has furnished true and complete copies of all documents establishing and governing any qualified plan or trust and evidencing Client's authority to retain TFGI. Client will furnish promptly to TFGI any amendments to the plan, and Client agrees that, if any amendment affects the rights or obligations of TFGI, such amendment will be binding on TFGI only when agreed to by TFGI in writing. If the Account contains only a part of the assets of the plan or trust, Client understands that TFGI will have no responsibility for diversification of the plan's or trust's other investments and that TFGI will have no responsibility or liability for Client's assets that are not in the TFGI Account.
- Term of Agreement. Either party, effective upon receipt of written notice of termination by the other party, may terminate this

Agreement for any reason. Client will have immediate access to the assets in the Account, subject to any limitations or restrictions stated herein or imposed by Custodian; and, on termination, fees will be refunded on a pro rata basis. The transfer of assets from custodian to custodian is not under the purview of TFGI, and TFGI can do nothing to accelerate the process.

- Joint Accounts. If this Agreement is signed by more than one person on behalf of Client, TFGI may follow the instructions of any one of them; and notice to one shall be considered notice to all.
- Arbitration. All disputes involving this Agreement will be resolved through arbitration. The parties understand and agree that:
  - arbitration is final and binding on the parties;
  - pre-arbitration discovery is generally more limited than, and different from, court proceedings;
  - the arbitrator's award is not required to include factual findings or legal reasoning, and any party's right to seek modification or rulings by the arbitrator is strictly limited; and
  - the panel of arbitrators will typically include a minority of arbitrators who were or are affiliated with the securities industry.

Arbitration will be conducted in accordance with the rules of the American Arbitration Association. Either party may initiate arbitration by mailing a written notice to the other party hereto. Any award the arbitration panel makes will be final, and judgment on it may be entered by any court having jurisdiction. The arbitration provision does not constitute a waiver of any rights Client may have under applicable law, including the right to choose the forum in which to seek resolution of disputes. Notices must be in writing and must be delivered by hand or by registered or certified mail, return receipt requested, postage prepaid.

- Governing State Law. This Agreement will be governed by the laws of the State of Texas without giving effect to any conflict or choice of law provisions; provided that nothing in this Agreement will be construed in any manner inconsistent with the Advisers Act referred to above, any rule or order of the Securities and Exchange Commission under the Advisers Act, or if applicable to the Account, any rule or order of the Department of Labor under ERISA.
- Client Authority. Any person who signs this Agreement represents that he or she is fully authorized to do so and is of legal age to conduct business for Client and

to provide these authorizations to TFGI. If Client is a corporation, the person signing this Agreement for Client represents that he or she has been authorized to do so by the appropriate corporate action. If this Agreement is entered into by a trustee or other fiduciary, such trustee or fiduciary represents that TFGI's investment management strategies are authorized under the applicable plan, trust agreement, bylaw or law and that the person signing this Agreement has the authority to negotiate and enter into this Agreement. Any person who signs this agreement agrees to inform TFGI of any event that might affect the propriety of this Agreement or the authority of the person who signed this Agreement to conduct business on behalf of the Account.

- Assignment. Neither the rights nor the obligations of a party to this Agreement may be assigned without the written consent of both parties hereto.
- Successor Organizations. Reference herein has been made to a specific broker/dealer and to a specific custodian. Client hereby acknowledges that the relationship with either of those organizations could change as determined by TFGI and IAR. Client hereby ratifies this Agreement without further execution of any documentation, including a new Client Agreement, in order to continue the terms of this Agreement in the event that either, or both, of those organizations should be replaced, or in the case of broker/dealer being eliminated. In summary, the change of broker/dealer or custodian relationship shall not impact the validity of this Agreement.
- Client Relationship. All parties to this Agreement hereby acknowledge that the governing relationship is between Client and IAR and that no other party hereto, nor any other party mentioned herein, has any legal or equitable claim involving this relationship.
- Account Termination. Client acknowledges that a small termination fee may be charged by Custodian if Client elects to terminate this Agreement.
- Execution of All Documents. TFGI acknowledges that all documents may be executed by IAR on behalf of TFGI.
- Income Tax Withholding. Client hereby states that Federal Income Back Up Tax Withholding provisions of the Internal Revenue Code do not apply to Client but that if such provisions were to become applicable in the future, Client will notify TFGI in writing immediately. Until such notice is given to TFGI, TFGI shall have no responsibility to withhold income tax, and Client hereby indemnifies TFGI, IAR, and all other parties hereto, including TDA and its related entities, for any

charges made against, or liabilities incurred, by such parties, and any expenses related thereto, as a result of such notice not being given to TFGI. In the event of a rollover of Assets from a tax-qualified plan requiring withholding of federal income tax, Client acknowledges that it is the Client's sole responsibility to make any such required payment.

- Withdrawals. Client may request withdrawals, including periodic withdrawals, from the Account. Client understands that this Account is for long-term investment purposes and that withdrawals may impair investment results and achievement of Client's investment objectives. Client acknowledges that it may be necessary to sell assets to create cash to distribute as a withdrawal and that adequate time, up to three business days, is required before cash generated by a sale of an asset is available for distribution to Client. Therefore, Client must provide TFGI with adequate notice of the need for a withdrawal. Client acknowledges that TFGI can be of assistance to Client only if Client requests assistance directly to TFGI and that direct contact with TDA could have unsatisfactory results.
- Outside Providers. TFGI has relationships with other Registered Investment Advisors ("Outside RIA's") and may, from time to time, engage one or more of them, with Client's consent, on Client's behalf to manage all, or a portion, of Client's assets. Assets managed by any Outside RIA shall be custodied pursuant to arrangements made by such Outside RIA. Client will need to sign a separate management agreement with such Outside RIA and may, at the selection of Client (not TFGI), change from one Outside RIA to another. Any management agreement with An Outside RIA shall have its own fee schedule that shall supersede any fee schedule governing Client assets managed by TFGI.
- Entire Agreement: Modification. The provisions of this Agreement constitute the entire Agreement among the parties with respect to the matters covered, and, except as otherwise provided in this Agreement, may be modified only by a written agreement signed by all parties. Nothing in this Agreement shall constitute a waiver of any right granted to Client under applicable law.
- Provisions Stand Alone. All provisions of this Agreement shall stand alone and be singular as to their respective validity and enforceability. In the event that any one or more of the provisions of this Agreement should be determined to be invalid or unenforceable, all of the remaining provisions herein shall, nevertheless, be deemed valid and enforceable.

- Hold Harmless Clause. Client acknowledges that neither TFGI nor IAR are responsible for any actions taken, or advice given, by any individual or firm with respect to assets transferred to an account to be advised by TFGI or IAR. By executing this Agreement Client agrees to hold TFGI and IAR harmless with respect to such actions or advice.

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### **Retainer Agreement**

Some *Retainer Agreements* may be priced based on the complexity of work, especially when asset management is not the most significant part of the relationship.

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### **Investment Management Agreement**

A Statement of Investment Policy is executed for all accounts. This plan provides the measures of control between the client and the Investment Adviser Representative. It outlines the types of investments that may be used and the extent to which they may be used in achieving the investment objectives of the client .

This document identifies the investment objectives and policies of ("Client") for an account that will be managed by Philip Taggart, an investment advisor representative ("IAR") affiliated with Taggart Financial Group, Inc. ("TFGI"). Domestic and international equities—including preferred stocks, convertible debentures, real estate investment trusts and publicly-held limited partnerships, cash or cash equivalents, including mutual funds, closed-end funds and exchange traded funds which invest in such assets, may be used to implement this investment program ("plan"). This Statement of Investment Policy also provides for a target performance levels for the respective asset classes and provides for monitoring and measurement of such performance.

The "manager" or "investment manager" of the plan's assets shall be an IAR of Taggart Financial Group, Inc. who shall at all times discharge his duties and invest the assets of the plan:

- Solely in the interest of Client;
- For the exclusive purpose of providing benefits to Client:
- In a diverse manner so as to minimize the risk of large losses unless under the circumstance it is clearly prudent not do so; and

- With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

## II. Investment Objectives

- Over a market cycle of three to five years, to obtain real growth consistent with the level of risk and to achieve a real rate of return for the overall plan of 0% (CPI plus 0%).
- Over a market cycle of three to five years, to exceed the rate of return that would have been achieved by a statically allocated and passively managed portfolio at the same risk level the long-term target asset allocation set forth herein.
- Over a market cycle of three to five years, to minimize risk and to attain such growth in principal of the plan that the purchasing power of the plan is maintained with respect to the prevailing rate of inflation as determined by the consumer price index.

## III. Asset Allocation

Assets shall be allocated through the prudent diversification of the asset classes of Equities and Cash Equivalents. No liquidity to meet Client's liquidity requirements will be provided except by client's instruction, consistent with the goals and objectives of this Statement of Investment Policy.

- Long Term:** The risk/return profile shall be maintained by describing a long-term "Target" strategic asset allocation as \_\_\_% equity and \_% cash equivalents.
- Short to Intermediate Term:** Temporary deviations from the "Target" allocation shall be of a discretionary nature and shall be within the "Ranges" set forth in this Statement of Investment Policy in order to provide active asset allocation to meet technical and fundamental market conditions. Adjustments to actual asset allocations will not be made for what manager considers to be nominal differences caused by temporary market conditions.



- C. **Allocation Acknowledgment Disclosure:** The following represents your own target asset allocations and the ranges by asset class portion:

	<b><u>Minimum/Maximum</u></b>	<b><u>Acknowledged</u></b>
<b><u>Target</u></b>	<b><u>% Ranges</u></b>	<b><u>by Client</u></b>
Equity		_____
Income		_____
Cash Equivalents		_____

A long-term deviation of 5%-10% from the Target should be expected due to over performance and underperformance and shifts among asset classes.

NOTE: Since nearly all equity mutual funds have a portion of their holdings in cash equivalents, these normally small allocations will be ignored with respect to calculation of the cash equivalent portion of this account and 100% of any equity or fixed income mutual fund shall be deemed to be invested in its primary asset classification.

#### **IV. Investment Portfolio**

In order to maintain an efficient risk return profile and to set objectives and guidelines for different segments of the entire portfolio, the plan assets shall be structured in two primary asset classes described as Equity and Cash Equivalents.

##### **A. Plan Asset Classes**

1. Each asset class shall consist of individual securities and/or mutual funds at the discretion of investment manager and shall collectively be called Client's "managed account" whether the investments are in individual securities, mutual funds, closed-end funds, exchange traded funds, preferred stocks, corporate bonds, government bonds convertible bonds, royalty stocks, real estate investment trusts, or a combination of these investments.
2. Equity shall consist of investments in individual stocks and/or domestic, international and/or global mutual funds.

3. Income shall consist of US Treasury notes and bonds and Federal agency obligations, convertible bonds, commercial paper, preferred dividends, master limited partnership, real estate investment trusts and similar type of interest bearing income instruments and mutual funds and exchange traded funds that use these types of investments. In periods when the dollar currency is being debased, gold,, platinum, silver and similar precious metals may be used to substitute in part for the income portion of the portfolio, it being the purpose of such substitution to maintain the purchasing power of this portion of the portfolio..
4. Cash Equivalents shall consist of money market mutual funds or such other cash equivalent instruments described below.

**B. Investment Income and Capital Gains**

Dividends, interest and capital gains distributions for each asset class may or may not be reinvested in the underlying investment instrument where possible unless otherwise directed by Client.

**V. Delegation of Management of Plan Assets**

Manager shall be responsible for all investment decisions made pursuant to this Statement of Investment Policy and shall, upon Client's request, provide Client with a current copy of TFGI's Form ADV Part II as well as other disclosure documents as may be required under law, including, if applicable, any and all documentation to support its registration as an investment advisor under the Investment Adviser Act of 1940. Investment manager will have no less than ten years of business history or an MBA or superior education background.

**VI. Authority of Investment Managers**

- A. Subject to the terms and conditions of this Statement of Investment Policy, manager shall have full discretionary power to direct the investment, exchange and liquidation of the assets of this account consistent with the terms of this Statement of Investment Policy. Investment manager will have read and become familiar with this Statement of Investment Policy and will have signed it acknowledging his commitment to comply with its terms. Investment manager will recommend changes to this Statement of

Investment Policy when he views any part of it to be at variance with overall market and economic conditions.

- B. By signing a separate form, Client may direct investment manager to vote proxies on Client's behalf and in Client's interest.

## **VII. Investment Guidelines**

### **A. Equity**

On an average basis over a full market cycle, it is the objective of the equity portion of the plan to achieve a "real" rate of return of 0% (CPI plus 0%). This is a target return that is expected over the long-term (3-5 years) investment horizon. The goal of the equity portion of the plan is to generate an absolute return in line with the level of risk assumed.

The following guidelines will be observed over a five-year period:

1. No more than approximately \_\_\_\_% of the total portfolio will be assigned to mutual fund or ETF management within specific industry groups as listed in Investor's Business Daily.
2. No more than approximately 00.00% of the total portfolio will be invested in small capitalization stock mutual funds, whether domestic or international.
3. No more than approximately 00.00% of the total portfolio will be invested in international mutual funds or ETFs.
4. No more than approximately 00% of the total portfolio will be invested in global positions that may include both international investments and investments in the United States. Global funds may vary domestic and international allocations according to manager discretion. For purposes of this investment policy, global funds are not included in international allocations.
5. Although the account will be a "cash" account, leveraged or short mutual funds designed to increase the return of a given index or to provide an inverse return to the direction in which the index is moving may be used at the discretion of the manager.

## **B. Income**

The income portion of the plan may be invested in municipal bonds, treasury bills, notes, bonds and government agency debts, convertible securities and high-yield bonds or mutual funds that invest in such items. Preferred stocks and real estate investment trusts (or mutual funds that invest extensively in real estate investment trusts) and gold or other precious metals that may be used to preserve the purchasing power of the portfolio when the dollar is losing value may be used as income proxies if manager determines that it is prudent to do so under the current market conditions. The goal of the investment portion of the portfolio is 0% (CPI plus 0%) over a three- to five- year period.

## **C. Cash Equivalents**

The cash equivalent portion of the plan will be invested in readily marketable and diversified securities. Investments may be made in money market mutual funds, certificates of deposit, U.S. Treasury and Federal Agency obligations, commercial paper, or other money-market instruments. No issue or issuer shall constitute more than 10% of the total value of the plan, except U.S. Treasury and Federal Agency obligations or a money market instrument offered through Waterhouse Institutional Services.

As to certificates of deposit, no issuer's obligations shall exceed the maximum limit of FDIC insurance unless otherwise directed by Client. If cash is invested in "money market" instruments, such securities will not be considered as equities for purposes of this Statement of Investment Policy.

The goals for the cash equivalent portion of the plan are to exceed the return of the 90-day Treasury Bill and to achieve a real rate of return of 0% (CPI plus 0%).

## **VIII. Securities Custody and Recordkeeping**

Monthly reports will be provided by the custodian of Client's account and will include a transaction summary of all activity in the account for the month, as well as a list of positions held showing market values of the respective positions at month-end. Mutual fund companies may also provide statements.

## **IX. Performance Monitoring and Evaluation**

With the exception of investments directed by Client for purchase by investment manager, or for investments that are transferred to the account at Client's request, investment manager will monitor all investments in this account and will provide a quarterly investment performance report (that will include any directed investments as described above) that will include the following:

- A. The actual amount of gain/loss (total return net of fees and transaction costs) for the preceding quarter.
- B. The actual allocation of assets in the account at the end of the quarter.
- C. A comparison of the account's return versus:
  - The target rate of return
  - The relevant indices
  - Inflation
- D. Tax lots will be maintained and realized gains and losses will be reported at the end of each quarter.

No such report will be prepared for a partial quarter. Performance may be shown in terms of internal rate of return. For full quarters, performance will be shown in terms of time weighted return. Additional charts and graphs may be included at the client's request, subject to the manager's ability to produce them from the data on hand. Such reports may include the total gain from inception of the account, the asset allocation of the account on specific dates in graph form and the performance of the various equity asset classes against indices.

## **X. Acceptance of Statement of Investment Policy**

By signing this Statement of Investment Policy, Client acknowledges that TFGI is an investment advisor registered in the State of Texas.

Client agrees that any amendment to this document will be to the full document and that client is responsible for informing manager of changes that may need to be made to provide cash, increase or decrease risk and return levels and related information.

The investment manager of the plan's assets shall at all times discharge his duties and invest the assets of the plan:

## **CONSULTING SERVICES**

- Clients may also receive investment advice on a more limited basis. This may include advice on ancillary ideas of concern including but not limited to estate planning, retirement planning, as a merger target, or any other specific area of investment concerns. TFGI also provides specific consultation and administrative services regarding investment and financial concerns of Client. Costs on gathering information are passed through to Client. Such costs are estimated and discussed with Client before being incurred. To date no fees have been charged for these services; however, that could change in the future and would be discussed with Client in advance of any fees being charged. Any such fees will be disclosed in this form ADV.
- TFGI will assist Client in understanding and evaluating in light of Client's investment situation.
- As background to developing a Statement of Investment Policy, TFGI requests information from Client and based on what is provided, may review documentation in the following areas:
  - Personal: family records, budgeting, personal liability, estate information, and financial goals.
  - Tax and Cash Flow: Income tax and spending analysis, planning for past, current and future years.
  - Death and Disability: Cash needs at time of death, income needs of surviving dependents, estate planning and disability income analysis, wills and trusts.
  - Retirement :Analysis of current strategies and investment plans to help Client achieve his retirement goals.
  - Investments: Analysis of investment alternatives and their effect on Client's portfolio.

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### **Hourly Planning Engagements**

TAGGART FINANCIAL GROUP, INC. provides hourly planning services for clients who need advice on a limited scope of work. The hourly rate for

limited scope engagements is \$240/hour and includes such work as planning for the purchase or sale of business or real property, advisability of going public or similar activity.

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### **Asset Management**

Assets are invested primarily in stocks, bonds no-load or low-load mutual funds and exchange-traded funds, usually through discount brokers or fund companies. Fund companies charge each fund shareholder an investment management fee that is disclosed in the fund prospectus. Discount brokerages may charge a transaction fee for the purchase of some funds.

Stocks and bonds may be purchased or sold through a brokerage account when appropriate. The brokerage firm charges a fee for stock and bond trades. TAGGART FINANCIAL GROUP, INC. does not receive any compensation, in any form, from fund companies. The transaction costs for such purchases are deducted from the next quarter's fees before such fees are billed to the client.

#### **•Investment Objectives**

- Over a market cycle of three to five years, to obtain real growth consistent with the level of risk and to achieve a real rate of return for the overall plan.
- Over a market cycle of three to five years, to exceed the rate of return that would have been achieved by a statically allocated and passively managed portfolio at the same risk level the long-term target asset allocation set forth herein.
- Over a market cycle of three to five years, to minimize risk and to attain such growth in principal of the plan that the purchasing power of the plan is maintained with respect to the prevailing rate of inflation as determined by the consumer price index.

#### **•Asset Allocation**

Assets shall be allocated through the prudent diversification of the asset classes of Equities, Income and Cash Equivalents. Sufficient liquidity to meet Client's

liquidity requirements will be provided, consistent with the goals and objectives of this Statement of Investment Policy.

- **Long Term:** The risk/return profile shall be maintained by describing a long-term "Target" strategic asset allocation.
- **Short to Intermediate Term:** Temporary deviations from the "Target" allocation shall be of a discretionary nature and shall be within the "Ranges" set forth in the Statement of Investment Policy in order to provide active asset allocation to meet technical and fundamental market conditions. Adjustments to actual asset allocations will not be made for what manager considers to be nominal differences caused by temporary market conditions.
- **Allocation Acknowledgment Disclosure:** The following represents your own target asset allocations and the ranges by asset class portion:

	<b><u>Target</u></b>	<b><u>Minimum/Maximum % Ranges</u></b>	<b><u>Acknowledged by Client</u></b>
Equity	%	0 - 100%	_____
Income	%	0 – %	_____
Cash Equivalents	%	0 - %	_____

A long-term deviation of 5%-10% from the Target should be expected due to over performance and underperformance of asset classes.

NOTE: Since nearly all equity or income mutual funds have a portion of their holdings in cash equivalents, these normally small allocations will be ignored with respect to calculation of the cash equivalent portion of this account and 100% of any equity or income mutual fund shall be deemed to be invested in its primary asset classification.

#### •Investment Portfolio



In order to maintain an efficient risk return profile and to set objectives and guidelines for different segments of the entire portfolio, the plan assets shall be structured in three primary asset classes described as Equity, Income and Cash Equivalents.

**A. Plan Asset Classes**

1. Each asset class shall consist of individual securities and/or funds, and /or ETFs at the discretion of investment manager and shall collectively be called Client's "managed account" whether the investments are in individual securities, mutual funds, ETFs, bullion, real property, oil and gas assets, other commodities or a combination of these.
2. Equity shall consist of investments in individual stocks and/or domestic, international and/or global mutual funds and/or ETFs .
3. Income shall consist of investments in gold, silver, copper, real estate investment trusts, oil royalty trusts, individual income securities and/or fixed income mutual funds, and/or ETFs, sovereign/international, and domestic, including inflation-adjusted investments
4. Cash Equivalents shall consist of money market mutual funds, ETFs, or such other cash equivalent instruments described below.

**B. Investment Income and Capital Gains**

Dividends, interest and capital gains distributions for each asset class shall be reinvested in the planned program where possible unless otherwise directed by Client.

- **Delegation of Management of Plan Assets**

Manager shall be responsible for all investment decisions made pursuant to this Statement of Investment Policy and shall, upon Client's request, provide Client with a current copy of TFGI's Form ADV Part II as well as other disclosure

documents as may be required under law, including, if applicable, any and all documentation to support its registration as an investment advisor by the State of Texas. Investment manager will have no less than ten years of business history or an MBA or superior education background.

- **Authority of Investment Managers**

- A. Subject to the terms and conditions of this Statement of Investment Policy, manager shall have full discretionary power to direct the investment, exchange and liquidation of the assets of this account consistent with the terms of this Statement of Investment Policy. Investment manager will have read and become familiar with this Statement of Investment Policy and will have signed it and acknowledged his commitment to comply with its terms. Investment manager will recommend changes to this Statement of Investment Policy when he views any part of it to be at variance with overall market and economic conditions.
- B. By signing a separate form, Client may direct investment manager to vote proxies on Client's behalf and in Client's interest.

- **Investment Guidelines**

- A. Equity**

On an average basis over a full market cycle, it is the objective of the equity portion of the plan to achieve a "real" rate of return that reflects the client's knowledge of and comfort with investment risks. This is a target return that is expected over the long-term (3-5 years) investment horizon. The goal of the equity portion of the plan is to generate an absolute return in line with the level of risk assumed and on an annual average basis to exceed the S&P 500 Index.

The following guidelines will be observed over a five-year period:

1. No more than a certain percentage of the total portfolio will be assigned to ETFs, individual issues, commodity ETFs or mutual

fund management within specific industry groups as listed in Investor's Business Daily.

2. No more than a certain percentage of the total portfolio will be invested in small capitalization stock mutual funds, whether domestic or international.
3. No more than a certain percentage of the total portfolio will be invested in international mutual funds or ETFs.
4. No more than a certain percentage of the total portfolio will be invested in global mutual funds that may include both international investments and investments in the United States. Global funds may vary domestic and international allocations according to manager discretion. For purposes of this investment policy, global funds are not included in international allocations.
5. Leveraged ETFs, double leveraged ETFs, leveraged mutual funds and short ETFs and mutual funds may or may not be used in this process.

• **Income**

Income is used in most portfolios, although certain equity interests as noted immediately following may be designated income in reports from time to time. The investment objective of the income portion of the plan is to maintain dollar principal in liquid form while generating a competitive total rate of return. The long-term goals of this portion of the plan are to achieve a certain real rate of return over a market cycle and to exceed the return of the Barclay Government Credit Bond Index.

The income portion of the plan may be invested in municipal bonds, treasury bills, notes, bonds and government agency debts, convertible securities, gold and/or silver bullion, other commodities and high-yield bonds or mutual funds that invest in such items. Preferred stocks and real estate investment trusts (or ETFs or mutual funds that invest extensively in real estate investment trusts) may be used as income proxies if manager determines that it is prudent to do so under then current market conditions.

- **Cash Equivalents**

The cash equivalent portion of the plan will be invested in readily marketable and diversified securities. Investments may be made in money market mutual funds, certificates of deposit, U.S. Treasury, international banks, sovereign banks, or other money-market instruments. No issue or issuer shall constitute more than 10% of the total value of the plan, except U.S. Treasury and or a money market instrument offered through TD Ameritrade Institutional Services.

As to certificates of deposit, no issuer's obligations shall exceed the maximum limit of FDIC insurance unless otherwise directed by Client. If cash is invested in "money market" instruments, such securities will not be considered as equities for purposes of this Statement of Investment Policy.

The goals for the cash equivalent portion of the plan are to exceed the return of the 90-day Treasury Bill and to achieve a real specified rate of return.

- **Securities Custody and Recordkeeping**

Monthly reports will be provided by the custodian of Client's account and will include a transaction summary of all activity in the account for the month, as well as a list of positions held showing market values of the respective positions at month-end. Mutual fund companies may also provide statements.

- **Performance Monitoring and Evaluation**

With the exception of investments directed by Client for purchase by investment manager, or for investments that are transferred to the account at Client's request, investment manager will monitor all investments in this account and will provide a quarterly investment performance report (that will include any directed

investments as described above) that will include the following:

- The actual amount of gain/loss (total return) for the preceding quarter.
- The actual allocation of assets in the account at the end of the quarter.
- A comparison of the account's return versus:
  - The target rate of return
  - The relevant indices
  - Inflation

For partial quarters, performance may be shown in terms of internal rate of return. For full quarters, performance will be shown in terms of time weighted return.

### **Acceptance of Statement of Investment Policy**

By signing this Statement of Investment Policy, Client acknowledges that TFGI is an investment advisor under the laws of the State Of Texas.

Client agrees that any amendment to this document will be to the full document and that client is responsible for informing manager of changes that may need to be made to provide cash, increase or decrease risk and return levels and related information.

Initial public offerings (IPOs) are not available through TAGGART FINANCIAL GROUP, INC.

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### **Termination of Agreement**

A Client may terminate any of the aforementioned agreements at any time by notifying TAGGART FINANCIAL GROUP, INC. in writing and paying the rate for the time spent on the investment advisory engagement prior to notification

of termination. If the client made an advance payment, TAGGART FINANCIAL GROUP, INC. will refund any unearned portion of the advance payment.

TAGGART FINANCIAL GROUP, INC. may terminate any of the aforementioned agreements at any time by notifying the client in writing. If the client made an advance payment, TAGGART FINANCIAL GROUP, INC. will refund any unearned portion of the advance payment.

## Fees and Compensation

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### **Description**

TAGGART FINANCIAL GROUP, INC. bases its fees on a percentage of assets under management, hourly charges or fees.

Some *Retainer Agreements* may be priced based on the complexity of work, especially when asset management is not the most significant part of the relationship.

Financial plans are priced according to the degree of complexity associated with the client's situation.

Fees are *NEGOTIABLE*

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### **Fee Billing**

Investment management fees are billed quarterly, in *ADVANCE*, meaning that we invoice you *early in* the three-month billing period that has *BEGUN*.

Payment in full is expected upon invoice presentation. Fees are usually deducted from a designated client account to facilitate billing. The client must consent in advance to direct billing of their investment account, must review the billing before if it is deducted and the method of determining the fee in accordance with our mutual agreement.

### **Fees for Services.**

Client agrees to pay TFGI a fee for its investment management services. The fee will be a percentage of the market value of all assets in the Account on the last trading day of each prior calendar quarter or, if the Account was not open at the end of the prior calendar quarter, the money under management at the beginning of the Account. The fee schedule is:

Annual Fee Schedule

Taxable Accounts

Equity/Balanced Income

- 25 -

Taggart Financial Group, Inc.

<u>Managed Assets</u>	<u>Accounts</u>	<u>Accounts</u>
*Up to \$500,000	2.50%	1.00%
\$500,001 to \$750,000	2.35%	.90%
\$750,001 to \$1,000,000	2.20%	.83%
\$1,000,001 to \$1,500,000	2.05%	.67%
\$1,500,001 to \$2,000,000	1.90%	.60%
\$2,000,001 to \$2,500,000	1.75%	.53%
\$2,500,001 to \$3,000,000	1.60%	.47%
\$3,000,001 to \$4,000,000	1.50%	.40%
\$4,000,001 to \$5,000,000	1.40%	.27%
\$5,000,001 to \$10,000,000	1.30%	.25%
*Minimum account size varies.		

Annual Fee Schedule  
Tax Deferred Accounts

<u>Managed Assets</u>	<u>Equity/Balanced Accounts</u>	<u>Income Accounts</u>
*Up to \$250,000	2.50%	.85%
\$250,001 to \$500,000	2.25%	.75%
\$500,001 to \$750,000	2.00%	.60%
\$750,001 to \$1,000,000	1.90%	.50%
\$1,000,001 to \$1,500,000	1.80%	.40%
\$1,500,001 to \$2,000,000	1.70%	.35%
\$2,000,001 to \$2,500,000	1.60%	.25%
\$2,500,001 to \$10,000,000	1.50%	.20%
*Minimum account size varies		

- Negotiated Fee. All fees are negotiable..

- Calculation of Fees. Fees shall be paid in quarterly installments (in advance) equal to one-fourth of the annual fee based on the funds under management initially or at the end of the prior quarter. So long as the negotiated fee is less than the applicable fee stated in the Fee Schedule, above, the negotiated fee shall be charged. However, once the value of the assets managed in this Account reaches a point at which the Fee Schedule is more advantageous to Client, the Fee Schedule shall control (and a fee smaller than the negotiated fee shall be charged).
  
- Deduction of Fees from Account. Client authorizes Custodian to deduct all applicable fees from Client's Account and to pay to TFGI the management fee for each calendar quarter. IAR will send to Client a bill showing the amount of the management fee due, the Account value on which the fee is based and how the fee was calculated. At approximately the same time, IAR will notify Custodian to charge the fee against the Account. Custodian will send Client a monthly transaction statement that will show all transactions for the month, including management fees paid to TFGI.
  
- Sharing of Fees. Client acknowledges that TFGI, IAR, and their agents, in connection with the performance of their respective duties, shall be entitled to and share in all investment advisory fees payable pursuant to this Agreement.
  
- Mutual Fund Fees – Separate. Client acknowledges that investment advisory fees and other costs charged by mutual funds shall be separate from, and not a part of, investment advisory fees charged pursuant to this Agreement.
  
- Crediting of Charges. Mutual funds will be purchased from 12,000 total mutual funds, 2,300 of which are available at Net Asset Value (NAV), with no sales charge or transaction cost to Client. Transaction charges of \$9.99 for mutual fund purchase and \$9.99 for stock purchase may be paid from Client's account which will be reimbursed at the beginning of the next quarter by a deduction in the quarterly fees charged by TFGI. TFGI believes that this policy best assures trades strictly in the interest of Client, although it also presents incentive to trade fewer times. Exception: In the event that investment guidelines and market conditions indicated that sector funds or specific country funds need to be employed and where the fund company will not permit funds to be



purchased at NAV, Client may authorize the purchase of funds at the stated costs.

- Expenses Due to Client's Prior Ownership. IAR, at Client's request, will assist Client in determining whether there will be any termination fees or back-end surrender charges (and the amount thereof) for assets to be sold before or after transfer to Custodian for management by TFGI and IAR. Examples of investments that could incur back-end surrender charges are mutual funds and insurance annuity contracts. TFGI and IAR do not assume responsibility for the accuracy of information obtained from third party custodians, insurance companies or anyone affiliated with or acting on behalf of such institutions or financial responsibility for the financial or tax implications of selling such investments. Client assumes responsibility for any such charges, fees or other financial or tax implications arising from the sale of such assets.
- Potential Fee Reduction. In certain instances, TFGI may work with other Registered Investment Advisors to provide services. In such cases, TFGI will be compensated by the other Investment Advisors performing such services. Client will pay such other Investment Advisor pursuant to its own separate fee schedule. Client will be given any applicable ADV, policy guideline, management contract or any other documentation customarily provided by such other Investment Advisor including its customary information on services rendered and fees for such services before services begin. Such funds under management will serve to reduce Client's overall fee payable directly to TFGI pursuant to the above Fee Schedule. Client will pay to TFGI the lowest rate indicated for the total amount of assets under management in either the taxable or tax deferred categories, as indicated by the nature of the Account.

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### **Other Fees**

Custodians may charge transaction fees on purchases or sales of certain mutual funds and exchange-traded funds and the origination or termination of an IRA or similar type of investment. Transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security. These nominal fees are deducted from future quarterly billing by Taggart Financial Group, Inc.

TAGGART FINANCIAL GROUP, INC., in its sole discretion, may waive its minimum fee and/or charge a lesser investment advisory fee based upon

certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients and similar factors.

New Advisory Service Agreement fees are calculated on a formula basis and adjusted for complexity of individual situations and the complexity specificity of the client's instruction.

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**Expense Ratios**

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

Performance figures quoted by mutual fund companies in various publications are before or after their fees have been deducted, and will be properly identified.

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**Past Due Accounts and Termination of Agreement**

TAGGART FINANCIAL GROUP, INC. reserves the right to stop work on any account that is more than 14 days overdue. In addition, TAGGART FINANCIAL GROUP, INC. reserves the right to terminate any financial planning engagement where a client has willfully concealed or has refused to provide pertinent information about financial situations when necessary and appropriate, in TAGGART FINANCIAL GROUP, INC.'s judgment, to providing proper financial advice. Any unused portion of fees collected in advance will be refunded within 14 days of notice of termination.

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**Performance-Based Fees**

TAGGART FINANCIAL GROUP, INC. has never used performance-based fees.

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**Sharing of Capital Gains**

TAGGART FINANCIAL GROUP, INC. has never shared Capital Gains.

## Types of Clients

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### **Description**

TAGGART FINANCIAL GROUP, INC. generally provides investment advice to individuals, pension and profit sharing plans, trusts, estates, or charitable organizations, corporations or business entities, or accounts held within IRA programs which require the client to make investment selections..

Client relationships vary in scope and length of service.

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### **Account Minimums**

The minimum account size is \$1,000.00 of assets under management, which equates to an annual fee of \$ 28.00, providing the account is associated with an account of at least \$100,000 or more.

When an account falls below \$ 100,000.00 in value, the minimum annual fee of \$2,500.00 is charged. Depending upon circumstances.

TAGGART FINANCIAL GROUP, INC. has the discretion to waive the account minimum. Accounts of less than \$ 100,000.00 may be set up when the client and the advisor anticipate the client will add additional funds to the accounts bringing the total to \$ 100,000.00 within a reasonable time. Other exceptions will apply to employees of TAGGART FINANCIAL GROUP, INC. and their relatives, or relatives of existing clients.

Clients receiving ongoing asset management services will be assessed a \$2,500.00 minimum annual fee. Clients with assets below the minimum account size may pay a higher percentage rate on their annual fees than the fees paid by clients with greater assets under management.

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

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### **Methods of Analysis**

Security analysis methods may include:

- charting,
- fundamental analysis,
- technical analysis,
- macroeconomic analysis and
- cyclical analysis.

The main sources of information include :

- Markets online research

- Stock research online research
- Mutual fund online research
- ETFs online research
- Fixed income online research
- Commodities online research
- Option online research
- Quote list online research
- Economics online research
- financial newspapers and magazines,
- research materials prepared by others,
- corporate rating services,
- timing services,
- annual reports,
- prospectuses,
- filings with the Securities and Exchange Commission, and
- company press releases.

Data compilations include but are not limited to:

- Comparative industry companies
- Valuation and ratios
- Margins and returns
- Average 5-year growth rates
- Insider holdings
- Insider transactions
- Institutional holdings
- Estimated earnings
- Analyst recommendations

Other sources of information that TAGGART FINANCIAL GROUP, INC. may use include

- Morningstar Principia mutual fund information, Morningstar Principia stock information,
- VectorVest,
- Investor's Business Daily,

- Wall Street Journal market and financial information
- Economist, Bloomberg's Businessweek and similar publications.

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### **Investment Strategies Used**

The primary investment strategy used on client accounts is strategic asset allocation using a core and satellite approach to meet client objectives. The first decision divides the portfolio into equity, income and cash components. We use managed index, mutual funds and/or exchange-traded funds as core investments, and add individual securities, closed-end funds, limited partnerships, sector, commodity and geographically concentrated ETFs and actively-managed funds where we believe there are opportunities to make a difference. Portfolios are globally diversified to control the risk associated with traditional markets.

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time. Each client executes a Statement of Investment Policy that documents their objectives and their desired investment strategy.

Other strategies may include;

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

TFGI is involved in the selection, recommendation, and analysis of mutual funds and individual securities. Factors considered by TFGI in recommending investments may include such factors as technical market conditions, charting, manager's experience, tax consequences, portfolio turnover, total return, momentum, and similar factors. TFGI provides asset allocation services in fulfillment of individual policy guidelines, and may recommend mutual funds, including no-load funds, and actively allocate, reallocate, or rebalance such funds. For example, TFGI investment advice is most likely to take the form of a recommendation of diversification of investment assets. The recommendation may be of geographic or sector allocations or similar investments intended for greater safety of principal. Other factors that may be considered include leading economic indicators and market conditions that indicate enhanced or diminished economic climates for particular management styles, such as large, mid, or small capitalization, growth and value and specific industry sector and country funds. Even though TFGI has discretionary authority to buy and sell any mutual fund or

security, it is important for clients to know that they have access to fund or securities selection and that they have the ability to override TFGI advice at any time if TFGI is notified in advance of transaction being implemented.

Investment styles can vary based on market conditions. Target allocations among equities, income and cash can vary within ranges specified in Client's Statement of Investment Policy as IAR reacts to changes in market conditions. Specific types of investment may vary among IARs and from account to account.

Target allocations are approximations and can vary as the relative performance of the three areas of equities, income, and cash vary.

Investment styles and strategies may vary among IARs. Each IAR will explain his respective style and strategy in Client's Statement of Investment Policy.

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### **Risk of Loss**

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

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline. Interest rates also may make purchase of equities more or less attractive to meet investment goals.
- **Market Risk:** The price of a security, bond, ETF or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events. Change in the price of competing industry securities frequently is a cause of a change in price of related securities.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar last year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk. The dollar has been monetized over the past twenty years and we believe will continue to be monetized in the future, possibly at accelerated rates.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.

- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. It is our policy not to invest in individual securities that have an average trading volume of less than 100,000 shares a day..
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

## **Disciplinary Information**

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### **Legal and Disciplinary**

The firm and its employees have not been involved in legal or disciplinary events related to past or present investment clients.

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

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### **Financial Industry Activities**

TFGI leases office space from WH Murphy and Co., Inc., an unrelated broker/dealer. TFGI doors are keyed to separate locks from the rest of the office. The broker/dealer firm has no access to TFGI office space.

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### **Affiliations**

TAGGART FINANCIAL GROUP, INC. has no arrangements that are material to its advisory or its clients with a related person who is a broker-dealer, other investment advisor, banking or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant or limited partnerships.

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

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### **Code of Ethics**

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

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**Participation or Interest in Client Transactions**

TAGGART FINANCIAL GROUP, INC. and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades but employee trades may be aggregated with client trades. Employees comply with the provisions of the TAGGART FINANCIAL GROUP, INC. *Compliance Manual*.

Client understands that TFGI, IAR and their affiliates will perform advisory services for various clients and that IAR may give advice or take actions for other clients that differ from the advice given or the action taken for a TFGI client. Also, IAR may, but is not obligated to, purchase or sell, or recommend for purchase or sale, any security which IAR, TFGI or any of their affiliates may purchase or sell for their own accounts or the account of any other client.

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**Personal Trading**

The Chief Compliance Officer of TAGGART FINANCIAL GROUP, INC. is Philip W. Taggart. He reviews all employee trades each quarter. His trades are reviewed by Lowell Q. Bass, Chairman/IAR. The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm receive preferential treatment. Since most employee trades are small mutual fund trades or exchange-traded fund trades or a small number of shares of individual stocks or bonds, the trades do not materially affect the securities markets.

It is the policy of TFGI that no person may immediately purchase or sell any individual security prior to a transaction(s) being implemented by TFGI for an advisory account, thereby preventing such associated persons from benefiting from transactions placed on behalf of advisory accounts.

As these situations represent a conflict of interest, TFGI has established the following restrictions in order to ensure its fiduciary responsibilities:

- A Director, officer, or associated person with TFGI shall not buy or sell securities for their personal portfolios where their decision is substantially derived, in whole or in part, by reason of their employment unless the information is also available to the investing public on reasonable inquiry. No person of TFGI shall prefer his or her own interest to that of the advisory client.
- TFGI maintains records of securities holdings for itself and anyone associated with this advisor practice who has access to advisory recommendations. These holdings are reviewed on a regular basis by an appropriate officer of TFGI.



- TFGI emphasizes the unrestricted right of the client to select and choose any broker-dealer and/or insurance company (s)he wishes.
- TFGI requires that all individuals must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
- Any individual not in observance of the above may be subject to termination.

## Brokerage Practices

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### **Selecting Brokerage Firms**

TAGGART FINANCIAL GROUP, INC. does not have any affiliation with product sales firms. Specific custodian recommendations are made to Clients based on their need for client services. TAGGART FINANCIAL GROUP, INC. recommends custodians based on the proven integrity and financial responsibility of the firm and the best execution of orders at reasonable commission rates.

TAGGART FINANCIAL GROUP, INC. recommends discount brokerage firms and trust companies (qualified custodians), such as TD Ameritrade Institutional Services, Inc..The client makes the ultimate choice of the custodian, however.

TAGGART FINANCIAL GROUP, INC. *does not* receive fees from these arrangements. All fees stem from clients only.

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### **Best Execution**

TAGGART FINANCIAL GROUP, INC. reviews the execution of trades at each custodian each quarter. The review is documented in the TAGGART FINANCIAL GROUP, INC. *Compliance Manual*. Trading fees charged by the custodians is also reviewed on a quarterly basis. TAGGART FINANCIAL GROUP, INC. does not receive any portion of the trading fees.

All trades performed by TD Ameritrade on behalf of TFGI clients are submitted simultaneously to three sources and the best price on the buy or sell side, is accepted in an instant.

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### **Soft Dollars**

TAGGART FINANCIAL GROUP, INC. receives a number of soft dollar services from T.D. Ameritrade. These services benefit all clients who have assets custodies at TD Ameritrade and may be used by TFGI on behalf of clients at any time. Among them are:

- Custody of Assets with \$74.5 million in protection above SIPC
- Dedicated Advisor Trading Desk – Personal attention to Client trades
- Authority to trade over 12,000 mutual funds
- Over 2,300 funds available with load waived and no transaction cost. When applicable, transaction costs as low as \$9.99 per trade, which Client pays but which costs are reimbursed by TFGI at the beginning of the next quarter in the quarterly billing.
- Consolidated Statements
- Standard and Poor's Research Reports
- No annual costs for IRA's
- Cash Management Services
- Dividend Reinvestment
- Branch Offices in Houston and Dallas
- Member NYSE/SIPC
- Zack's Investment Reports
- Argus Investment Reports
- Vickers Institutional Holding Reports
- Research
  - Markets
  - Stocks
  - Mutual funds
  - ETF's
  - Fixed income
  - Commodities
  - Option chains
  - Quote List
- Resource Center
  - Marketing Info Center
  - Affinity Services
  - Education and Training
  - Tax Law
  - Retirement Accounts
  - Conferences

- Teleconference
- Account Tools
  - Trading

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### **Order Aggregation**

Most trades are stocks, bonds, mutual funds or exchange-traded funds where trade aggregation does not garner any benefit to clients but assures all clients of uniform purchase circumstances regardless of the size of the account. Our employees may be part of these aggregated purchases but may not trade ahead of the client on a daily basis.

## **Review of Accounts**

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### **Periodic Reviews**

Account reviews are performed quarterly by advisors Philip Taggart, IAR, or Lowell Q. Bass, IAR. Account reviews are performed more frequently when market conditions dictate or clients request special information.

Client investment reviews may be done at any time Client wishes to do so; however, most investment reviews are done on a quarterly basis. A TFGI investment adviser representative will meet with any advisory client, advisory referral client, or consultation client to review his Account. IAR shall be properly registered, where applicable, in the state of residence of the client who he reviews. Client investment reviews shall be included in the quarterly fees. Clients will not charge extra for them.

The two IARs - Philip Winston Taggart, and Lowell Quentin Bass - conduct the reviews for up to 50 clients each. On occasion, two IARs conduct simultaneously and sometimes two IARs conduct separate reviews at different times in the same quarter.

TFGI reviews include information about the performance of the account relative to the target allocation set forth in Client's Statement of Investment Policy. Clients are questioned about possible changes that would affect their policy guidelines in their reviews. Examples of the types of consulting services that may be included in reviews are credit card debt, early payment of mortgages, family limited partnerships, grantor trusts, charitable trusts, business valuation, establishment of defined contribution and defined benefit plans, and children's investments and education

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### **Review Triggers**

Other conditions that may trigger a review are changes in the tax laws, expenditures mandated by state or federal governments, new investment information, and changes in a client's own situation.

Material market events or changes in Client's personal situation might cause a more frequent review in order for the Client's needs and concerns to be met. When Client signs a Client Agreement he agrees to notify IAR immediately of any change in personal or financial circumstances that could affect how IAR manages Client's account

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### **Regular Reports**

Custodian will provide Client monthly statements of activity in Client's Account, as well as positions held and values thereof, provided that there is activity in the account in any given month. If not, Custodian will provide Client with such a statement at the end of each calendar quarter. Also, TFGI quarterly reports will include a statement of Client's assets, purchase dates, cost basis and current market values for each asset held in Client's Account, and a

Account reviewers are members of the firm's Investment Committee. They are instructed to consider the client's current security positions and the likelihood that the performance of each security will contribute to the investment objectives of the client. The portfolios are reconciled to the custodian's official records, asset allocation, historical preferences, unrealized gains and losses, realized gains and losses for the current year.

Clients receive periodic communications on at least a quarterly basis. *Advisory Service Agreement* clients, *Investment Management* clients, receive written quarterly updates. The written updates include a portfolio statement, and a summary of objectives and progress towards meeting those objectives.

## **Client Referrals and Other Compensation**

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### **Incoming Referrals**

TAGGART FINANCIAL GROUP, INC. has been fortunate to receive many client referrals over the years. The referrals came from current clients, estate planning attorneys, certified public accountants, employees, personal friends of employees or client, former CEOs or CFOs of publicly traded corporations whom we have served in other capacities, insurance representatives and other similar sources. The firm does not pay referring parties for these referrals.

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**Referrals Out**

TAGGART FINANCIAL GROUP, INC. does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them. All recommendations are made on an arm's length basis simply to benefit the client's interests.

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**Other Compensation**

Fees are paid to Taggart Financial Group, Inc. from accounts referred to qualified third party managers at Brinker Capital Management ("Brinker") and Lockwood Financial Services, Inc. ("Lockwood"). Taggart Financial Group, Inc. is a solicitor for those custodians. These companies have agreements directly with TFGI clients. While TFGI monitors and may recommend a change in managers or rebalancing of assets, Client must sign the letter of instruction to instigate these changes. These agreements provide for payment of a portion of advisory fees to the solicitor as payment for services in procuring execution of a client agreement or fee agreement, quarterly performance reviews, and for other services. A copy of the written disclosure statement describing the material terms of the solicitor's agreement including compensation, is provided to Client. Clients are charged a fee which is a percentage of assets under management. Fees received by TFGI typically range from 10 to 100 basis points depending on the program selected and the size and nature of Client's account. In such cases the client/account relationship is with Brinker Capital or Lockwood Financial Services, Inc and does not involve active management by IARs from TFGI. TFGI IARs may recommend changes in managers to better suit changes in market conditions or client circumstances and will be an interface in the selection and transfer of assets from one third party manager to another.

## **Custody**

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**Account Statements**

All assets are held at qualified custodians, which means the custodians provide account statements directly to clients at their address of record at least quarterly. In most cases, monthly statements are provided, except in the case of 529 education plans.

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**Performance Reports**

Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided by TAGGART FINANCIAL GROUP, INC. The custodian's reports are reconciled with TFGI statements on a daily basis and should agree to the penny.

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**Net Worth Statements**

Clients may or may not be provided net worth statements and net worth graphs, depending on our relationship with the client. Net worth reports are generated from our client relationship management system. Net worth statements may contain approximations of bank account balances provided by the client, as well as the value of land and hard-to-price real estate, oil leases or other real property. The net worth statements are used for long-term financial planning where the exact values of assets are not material to the financial planning tasks.

## **Investment Discretion**

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**Discretionary Authority for Trading**

TAGGART FINANCIAL GROUP, INC. accepts discretionary authority to manage securities accounts on behalf of clients. TAGGART FINANCIAL GROUP, INC. has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold.

However, TAGGART FINANCIAL GROUP, INC. consults with the client prior to each trade to obtain concurrence if a blanket trading authorization has not been given.

When Client chooses TFGI to directly manage Client's Account, each of the following conditions must be met in order for management fees to be deducted from Client's Account.

- a. Client must authorize the Custodian in writing to deduct management fees directly from Client's Account in accordance with an agreement signed by Client.
- b. TFGI will send to Client an invoice that shows a computation of the amount of the management fee due, the value on which the fee was calculated and any transaction costs for which Client is entitled to be reimbursed.

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

For discretionary clients, TFGI required that it be provided with written authority to determine the securities and the amount of the securities to be bought in Client's account. Any limitations on this discretionary authority shall be included in this written authority statement. Clients may change/amend these limitations as required. Such amendments shall be submitted in writing.

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

All transactions for TFGI's advisory service will be effected by TD Ameritrade Institutional Services, Inc., and its related entities, unless otherwise agreed.

TFGI endeavors to recommend those Brokers or Dealers that will provide the best services at the lowest commission rates possible. The reasonableness of commissions is based on the broker's ability to provide professional services, competitive commission rates, research, and other services which will help TFGI in providing efficient investment management services to its clients. TFGI may, therefore, recommend or use a broker who provides useful research services even though a lower commission may be charged by a broker who offers no such research services and minimal transaction assistance. Research services may be useful in servicing all clients and not all of such research may be useful for the account for which the transaction was effected.

TD Ameritrade Institutional Services, Inc. ("TDAIS") is a diversified financial service company and is a member of FINRA and SIPC. TD Ameritrade Clearing ("TDAC") is the custodian and clearing firm for TDAIS. TFGI generally recommends TDAIS and TDAC for use by its clients. TDAC maintains books and records which detail transactions in accounts, prepares and sends confirmations and statements reflecting purchases and sales of securities and related activity in accounts, including receipt and delivery of monies or securities and the collection and distribution of dividends. If Client purchases products, the Investment Representative receives only the negotiated fees on money under management. Client is under no obligation to purchase products recommended or to purchase products through TDAIS.

As TFGI does not have the discretionary authority to determine the broker or dealer to be used in Client transactions, Client must instruct TFGI to execute all transactions through a particular broker. TFGI will not have authority to negotiate commissions or obtain volume discounts, and best execution may not be achieved. In addition, under these circumstances a disparity in commission or transaction charges may exist between the commissions of transactions charged to other clients.

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### **Limited Power of Attorney**

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

## Voting Client Securities

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### **Proxy Votes**

TAGGART FINANCIAL GROUP, INC. does not vote proxies on securities. Clients are expected to vote their own proxies.

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

## Financial Information

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### **Financial Condition**

TAGGART FINANCIAL GROUP, INC. does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because TAGGART FINANCIAL GROUP, INC. does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than \$600 per client six months or more in advance.

## Business Continuity Plan

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### **General**

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

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### **Disasters**

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

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### **Alternate Offices**

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



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**Loss of Key Personnel**

None

## **Information Security Program**

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**Information Security**

TAGGART FINANCIAL GROUP, INC. maintains an information security program to reduce the risk that your personal and confidential information may be breached.

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**Privacy Notice**

TAGGART FINANCIAL GROUP, INC. is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

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

With your permission, we disclose limited information to attorneys, accountants, and mortgage lenders with whom you have established a relationship. You may opt out from our sharing information with these nonaffiliated third parties by notifying us at any time by telephone 713-961-9888, mail, fax, email, or in person. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf.

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

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

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

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

## Brochure Supplement (Part 2B of Form ADV)

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### **Education and Business Standards**

TAGGART FINANCIAL GROUP, INC. requires that advisors in its employ have a bachelor's degree and business or investment management experience, (investments, insurance, etc.) of at least 10 years as the minimum standard for its professional staff. TFGI's current advisory staff has at least twenty years experience in investments or insurance or a combination of both.

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### **Professional Certification**

#### **PHILIP W. TAGGART, CERTIFICATIONS**

- **Year of Birth 1930**
- **Educational Background:**
  - Attended New Mexico Military Institute from 1945 to 1950.
  - Graduated from University of Tulsa in 1956 with a B. A. in Journalism.

#### **Business Background:**

- Chief Executive Officer of Taggart Financial Group, Inc. from 4/94 to present.
- Managing Executive/Registered Representative for Walnut Street Securities from 12/93 to 9/98.
- Investment Representative/Financial Consultant of the Select Group, Inc. from 3/91 to 12/93
- Investment representative for Royal Alliance Associates, Inc. from 3/91 to 12/93.
- Chairman/Investor Relations /Broad Based Financial Services for The Philip Taggart Company from 9/91 to present.
- Chairman/Investor Relations/Broad Based Financial Services for Churchill Group, Inc from 2/73 to 9/91

#### **Professional Examinations:**

- NASD Series 7, General Securities Representative Exam, 2/25/91
- NASAA Series 63, Uniform Securities Agent State Law Exam, 3/1/91
- NASD Series 24, General Securities Principal Exam, 12/9/92

### **OTHER BUSINESS ACTIVITIES**

Mr. Taggart is a director of AmREIT, Inc, International Expert Systems, Inc., and Wave Imaging Technologies, Inc. He is the co-author of the book Taking Your Company Public, American Management Association, 1991, and had two previous careers as an investor relations professional and marketing public relations professional for publicly held corporations.

## Brochure Supplement (Part 2B of Form ADV)

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### **Professional Certification**

#### **LOWELL Q. BASS, CERTIFICATIONS**

- **Year of Birth 1948**
- **Educational Background:**
- Attended University of Michigan in 1971
- Graduated from Eastern Michigan University in 1973 with a B. F. A./Fine Arts

#### **Business Background:**

- Investment Advisor Representative for Taggart Financial Group, Inc from 4/94 to present.
- Investment Representative for Walnut Street Securities from 3/93 to 10/98
- Investment Representative /Senior Financial Consultant for Royal Alliance Associates, Inc. from 2/92 to 3/93
- Investment Representative for Securities America from 3/09 to 12/92
- Investment Advisor Representative for The Select Group from 1/91 to 3/93

#### **Professional Examinations:**

- NASD Series 1, General Securities Exam, 9/76
- NASAA Series 63, Uniform Securities Agent State Law Exam, 9/83

SUPERVISOR'S contact information:

713-961-9888 PHIL@TAGGART.COM