

**Part 2A of Form ADV: Firm Brochure  
Item 1: Cover Page  
MARCH 2016**



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**Firm Contact:  
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This brochure provides information about the qualifications and business practices of Morling Financial Advisors, LLC. If you have any questions about the contents of this brochure, please contact Sylvia Chin, Chief Compliance Officer, at (415) 956-9500 or by email at [sylvia@morlingadvisors.com](mailto:sylvia@morlingadvisors.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 Morling Financial Advisors, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) by searching our firm's CRD #:111819.

Please note that the use of the term "registered investment adviser" and description of Morling Financial Advisors, LLC and/or our associates as "registered" does not imply a certain level of skill or training. You are encouraged to review this Brochure and Brochure Supplements for our firm's associates who advise you for more information on the qualifications of our firm and its employees.

## **Item 2: Material Changes to Our Part 2A of Form ADV: Firm Brochure**

Morling Financial Advisors, LLC is required to advise you of any material changes to our Firm Brochure ("Brochure") from our last annual update.

Since our last filing on June 10, 2015, the following changes have been made:

Sylvia Chin resigned from the role of Chief Compliance Officer effective 3/31/2016. Matt Shibata assumed the Chief Compliance Officer role upon Ms. Chin's resignation.

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## Item 4: Advisory Business

Morling Financial Advisors, LLC is dedicated to providing clients with a wide array of investment advisory services. We specialize in the following types of services: asset management, financial planning and consulting, and referrals to third party money managers. Our firm is a limited liability company formed in the State of California. We have been in business as an investment adviser since 1999 and is owned by Mr. Huong, Mr. Ling and Mr. Shibata.

### **Description of the Types of Advisory Services We Offer**

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#### **Portfolio Management for Individuals and/or Small Businesses (Asset Management):**

We emphasize continuous and regular account supervision. As part of our asset management service, we generally create a portfolio, consisting of individual stocks or bonds, exchange traded funds (“ETFs”), options, mutual funds and other public and private securities or investments. Our investment recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. The client’s individual investment strategy is tailored to their specific needs and may include some or all of the previously mentioned securities. Each portfolio will be determined by the client’s particular investment goal, which we determine to be suitable to the client’s circumstances. During our data-gathering process, we determine the client’s individual objectives, time horizons, risk tolerance, and liquidity needs. As appropriate, we also review and discuss a client’s prior investment history, as well as family composition and background. We manage these advisory accounts on a discretionary basis. Account supervision is guided by the client’s stated objectives, as well as tax considerations. Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors. Because some types of investments involve certain additional degrees of risk, they will only be implemented/recommended when consistent with the client’s stated investment objectives, tolerance for risk, liquidity and suitability.

We may utilize Independent Money Managers, where we evaluate an investment portfolio in conjunction with another investment advisory firm. Before selecting other advisers, we make sure that the other advisers are properly licensed or registered. Once the appropriate portfolio has been determined, we review the portfolio at least quarterly and if necessary, rebalance the portfolio based upon the client’s individual needs, stated goals and objectives. Each client has the opportunity to place reasonable restrictions on the types of investments to be held in the portfolio. See more information about this service under “Referrals to Third Party Money Managers” below.

#### **Financial Planning & Consulting:**

We provide a variety of financial planning and consulting services to individuals, families and other clients regarding the management of their financial resources based upon an analysis of client’s current situation, goals, and objectives. Generally, such financial planning services will involve preparing a financial plan or rendering a financial consultation for clients based on the client’s financial goals and objectives. This planning or consulting may encompass one or more of the following areas: Investment Planning, Retirement Planning, Estate Planning, Charitable Planning, Education Planning, Corporate and Personal Tax Planning, Cost Segregation Study, Corporate Structure, Real Estate Analysis,

Mortgage/Debt Analysis, Insurance Analysis, Lines of Credit Evaluation, Business and Personal Financial Planning.

Our written financial plans or financial consultations rendered to clients usually include general recommendations for a course of activity or specific actions to be taken by the clients. For example, recommendations may be made that the clients begin or revise investment programs, create or revise wills or trusts, obtain or revise insurance coverage, commence or alter retirement savings, or establish education or charitable giving programs. It should also be noted that we refer clients to an accountant, attorney or other specialist, as necessary for non-advisory related services. For written financial planning engagements, we provide our clients with a written summary of their financial situation, observations, and recommendations. Plans or consultations are typically completed within six (6) months of the client signing a contract with us, assuming that all the information and documents we request from the client are provided to us promptly. Implementation of the recommendations will be at the discretion of the client.

#### **Referrals to Third Party Money Managers:**

We provide clients with a list of investment advisory services of third party professional portfolio management firms for the individual management of client accounts. As part of this process, we assist clients in identifying an appropriate third party money manager. We provide initial due diligence on third party money managers and ongoing reviews of their management of your account.

In order to assist clients in the selection of a third party money manager, we typically gather information from the client about their financial situation, investment objectives, and reasonable restrictions they can impose on the management of the account, which are often very limited. It is important to note that we do not offer advice on any specific securities or other investments in connection with this service. Investment advice and trading of securities is only offered by or through the third party money managers to clients.

We periodically review third party money managers' reports provided to the client, but no less often than on an annual basis. Our associates contact the clients from time to time, as agreed to with the client, in order to review their financial situation and objectives; communicate information to third party money managers as warranted; and, assist the client in understanding and evaluating the services provided by the third party money manager. The client will be expected to notify us of any changes in his/her financial situation, investment objectives, or account restrictions that could affect their account. The client may also directly contact the third party money manager managing the account or sponsoring the program.

#### **Educational Seminars Workshops:**

We offer periodic seminars and workshops which provide general information on various financial topics including, but not limited to, estate and retirement planning, market trends, etc. No specific investment recommendations are provided in these seminars and the information provided does not purport to meet the objectives or needs of any individual. These seminars are offered free of charge to our advisory clients and any prospective client.

### **Pension Consulting Services:**

We also provide several advisory services separately or in combination. While the primary clients for these services will be pension, profit sharing and 401(k) plans, we offer these services, where appropriate, to individuals and trusts, estates and charitable organizations. Pension Consulting Services are comprised of four distinct services. Clients may choose to use any or all of these services.

#### *Investment Policy Statement Preparation (hereinafter referred to as "IPS"):*

We will meet with the client (in person or over the telephone) to determine an appropriate investment strategy that reflects the plan sponsor's stated investment objectives for management of the overall plan. Our firm then prepares a written IPS detailing those needs and goals, including an encompassing policy under which these goals are to be achieved. The IPS also lists the criteria for selection of investment vehicles as well as the procedures and timing interval for monitoring of investment performance.

#### *Selection of Investment Vehicles:*

We assist plan sponsors in constructing appropriate asset allocation models. We will then review various mutual funds (both index and managed) to determine which investments are appropriate to implement the client's IPS. The number of investments to be recommended will be determined by the client, based on the IPS.

#### *Monitoring of Investment Performance:*

We monitor client investments continually, based on the procedures and timing intervals delineated in the Investment Policy Statement. Although our firm is not involved in any way in the purchase or sale of these investments, we supervise the client's portfolio and will make recommendations to the client as market factors and the client's needs dictate.

#### *Employee Communications:*

For pension, profit sharing and 401(k) plan clients with individual plan participants exercising control over assets in their own account ("self-directed plans"), we also provide quarterly educational support and investment workshops designed for the plan participants when the plan sponsor engages our firm to provide these services. The nature of the topics to be covered will be determined by us and the client under the guidelines established in ERISA Section 404(c). The educational support and investment workshops will NOT provide plan participants with individualized, tailored investment advice or individualized, tailored asset allocation recommendations. If plan participants require our services, they can engage us.

### **Tailoring of Advisory Services**

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We offer individualized investment advice to clients utilizing our Asset Management services. Additionally, we offer general investment advice to clients utilizing our Financial Planning & Consulting and Referrals to Third Party Money Manager services. Clients are allowed to impose reasonable restrictions on investing in certain securities or types of securities.

## Participation in Wrap Fee Programs

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We do not offer wrap fee programs.

## Regulatory Assets Under Management<sup>1</sup>

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As of December 31, 2015, we manage \$133,439,401 on a discretionary basis only.

## Item 5: Fees & Compensation

### How We Are Compensated for Our Advisory Services

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#### Asset Management:

<u>Assets Under Management</u>	<u>Annual Percentage of Assets Charge</u>
\$0 - \$499,999	0.95%
\$500,000 - \$999,999	0.85%
\$1,000,000 - \$1,999,999	0.75%
\$2,000,000 - \$4,999,999	0.65%
\$5,000,000 - \$9,999,999	0.55%
\$10,000,000 or More	0.50%

Our firm's fees are billed on a pro-rata annualized basis quarterly in arrears based on the value of your account on the last day of the previous quarter. Fees will generally be automatically deducted from your managed account. In rare cases, we will agree to directly bill clients. As part of this billing process, you understand and acknowledge the following:

- Your independent custodian sends statements at least quarterly to you showing all disbursements for your account, including the amount of the advisory fees paid to us;
- You provide authorization permitting us to be directly paid by these terms;
- We send you an itemization invoice which includes the formula used to calculate the fee, the amount of assets under management the fee is based on, and the time period covered by the fee; and
- Our invoice includes a legend that urges the client to compare information provided in their statements with those from the qualified custodian.

#### Financial Planning & Financial Consulting:

We charge on an hourly or flat fee basis for financial planning and financial consulting services. The total estimated fee, as well as the ultimate fee that we charge you, is based on the scope and complexity of our engagement with you. Our fees are \$375 per hour for financial advisors and \$170 per hour for data

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<sup>1</sup> Please note that our method for computing the amount of "client assets we manage" can be different from the method for computing "assets under management" required for Item 5.F in Part 1A of Form ADV. However, we have chosen to follow the method outlined for Item 5.F in Part 1A of Form ADV. If we decide to use a different method at a later date to compute "client assets we manage," we must keep documentation describing the method we use and inform you of the change. The amount of assets we manage may be disclosed by rounding to the nearest \$100,000. Our "as of" date must not be more than three months before the date we last updated our Brochure in response to Item 4.E of Form ADV Part 2A.

entry. In hourly cases, we bill as services are rendered. In flat fee cases, up to 50% of the flat fee is invoiced at the beginning of the engagement, followed by a monthly fixed fee for the remainder of the engagement. The initial planning fees can range from \$250 to \$15,000. Monthly fixed fees can be up to \$500 per month.

These bills are due and payable within thirty (30) days of receipt. In all cases, we will not require a retainer exceeding \$1,200 when services cannot be rendered within 6 (six) months.

#### **Referrals to Third Party Money Managers:**

We are paid by third party money managers when we recommend you to them and you decide to open a managed account. Third party money managers pay us a portion of the investment advisory fee that they charge you for managing your account. Fees paid to us by third party money manager are generally ongoing. All fees we receive from third party money managers and the written separate disclosures made to you regarding these fees comply with applicable state statutes and rules. The separate written disclosures you need to be provided include: a copy of the third party money manager's Form ADV Part 2, all relevant Brochures, a Solicitation Disclosure Statement detailing the exact fees we are paid and a copy of the third party money manager's privacy policy. The third party money managers we recommend will not directly charge you a higher fee than they would have charged without us introducing you to them.

Third party money managers establish and maintain their own separate billing processes which we have no control over. In general, they will directly bill you and describe how this works in their separate written disclosure documents.

#### **Educational Seminars Workshops:**

These seminars are offered free of charge to our advisory clients and any prospective client.

#### **Pension Consulting Fees:**

We charge an annual fee for Pension Consulting Services which ranges from \$1,000 to \$10,000 depending on the services requested and the size of the plan.

Plan sponsors are invoiced in advance at the beginning of each calendar quarter.

A total minimum fee of \$1,000 is required. This minimum fee may prevent from providing services to very small ERISA plans.

#### **Advisory Fees in General:**

Although our firm has established the aforementioned fee schedule(s), we retain the discretion to negotiate alternative fees on a client-by-client basis. Client facts, circumstances and needs are considered in determining the fee schedule. These include the complexity of the client, assets to be placed under management, anticipated future additional assets; related accounts; portfolio style, account composition, reports, among other factors. The specific annual fee schedule is identified in the contract between the adviser and each client. Discounts, not generally available to our advisory clients, may be offered to family members and friends of associated persons of our firm. Lastly, pre-existing



advisory clients are subject to the advisory fees in effect at the time the client entered into the advisory relationship. Therefore, our firm's minimum advisory fees may differ among clients.

Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees.

#### **Other Fees:**

In addition to our advisory fees, clients are also responsible for the fees and expenses charged by custodians and imposed by broker-dealers, including, but not limited to, any transaction charges imposed by a broker-dealer with which an independent investment manager effects transactions for the client's account(s). Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information. Clients will incur transaction charges for trades executed in their accounts. These transaction fees are separate from our fees and will be disclosed by the firm that the trades are executed through. Also, clients will pay the following separately incurred expenses, which we do not receive any part of: charges imposed directly by a mutual fund, index fund, or exchange traded fund which shall be disclosed in the fund's prospectus (i.e., fund management fees and other fund expenses).

In certain situations, when suitable to the client, we may recommend third-party managers of private funds who charge performance based-fees. Clients should refer to that third-party manager's disclosure document for information regarding its fees, billing practices, minimum required investments and termination of advisory agreements. Managers charging performance based fees will only be recommended to qualified or accredited investors. We will also review with clients the fees described in the respective manager's disclosure brochure and management agreement (as applicable).

#### **Advisory Fees Due Quarterly in Arrears**

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We charge our advisory fees quarterly in arrears. In the event that you wish to terminate our services, we will charge the earned portion of our advisory fee to you. You need to contact us in writing and state that you wish to terminate our services. Upon receipt of your letter of termination, we will proceed to close out your account and process a pro-rata charge of earned advisory fees.

#### **Commissionable Securities Sales**

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We do not sell securities for a commission in our advisory accounts.

### **Item 6: Performance-Based Fees & Side-By-Side Management**

We do not accept performance-based fees.

### **Item 7: Types of Clients & Account Requirements**

We currently service Individuals and high net worth individuals, small business, pension plans and participants.

We do not require a minimum account balance throughout the course of the client's relationship with our firm. We generally charge a minimum fee of \$250 for written financial plans.

## Item 8: Methods of Analysis, Investment Strategies & Risk of Loss

### Methods of Analysis

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We use the following methods of analysis in formulating our investment advice and/or managing client assets:

- **Fundamental:** We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the security is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell). Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the security.
- **Asset Allocation.** Rather than focusing primarily on securities selection, we attempt to identify an appropriate ratio of securities, fixed income, and cash suitable to the client's investment goals and risk tolerance.  
A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals.
- **Qualitative Analysis.** We subjectively evaluate non-quantifiable factors such as quality of management, labor relations, and strength of research and development factors not readily subject to measurement, and predict changes to share price based on that data.  
A risk is using qualitative analysis is that our subjective judgment may prove incorrect.
- **Technical Analysis.** We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement.  
Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement

### Investment Strategies We Use

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We use the following strategies in managing client accounts, provided that such strategies are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

- **Long Term Purchases (Securities Held At Least a Year):** We purchase securities with the idea of holding them in the client's account for a year or longer. Typically we employ this strategy when we believe the securities to be currently undervalued, and/or we want exposure to a particular asset class over time, regardless of the current projection for this class. A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take

advantage of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

- **Short Term Purchases** (Securities Sold Within a Year): When utilizing this strategy, we purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase. A short-term purchase strategy poses risks should the anticipated price swing not materialize; we are then left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.
- **Trading** (Securities Sold Within 30 Days): We purchase securities with the idea of selling them very quickly (typically within 30 days or less). We do this in an attempt to take advantage of our predictions of brief price swings. Utilizing a trading strategy creates the potential for sudden losses if the anticipated price swing does not materialize. Moreover, under those circumstances, we are left with few options having a long-term investment in a security that was designed to be a short-term purchase, or the potential of having to taking a loss. In addition, because this strategy involves more frequent trading than does a longer-term strategy, there will be a resultant increase in brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.
- **Short Sales**: We borrow shares of a stock for your portfolio from someone who owns the stock on a promise to replace the shares on a future date at a certain price. Those borrowed shares are then sold. On the agreed-upon future date, we buy the same stock and return the shares to the original owner. We engage in short selling based on our determination that the stock will go down in price after we have borrowed the shares. If we are correct and the stock price has gone down since the shares were purchased from the original owner, the client account realizes the profit.

Short selling results in some unique risks:

1. *Losses can be infinite.* A short sale loses when the stock price rises, and a stock is not limited (at least, theoretically) in how high it can go. For example, if you short 100 shares at \$50 each, hoping to make a profit but the shares increase to \$75 per share, you'd lose \$2,500. On the other hand, the price of a stock cannot fall below \$0, which limits your potential upside.
  2. *Short squeezes can wring out profits.* As stock prices increase, short seller losses also increase as sellers rush to buy the stock to cover their positions. This increase in demand, in turn, further drives the prices up.
  3. *Timing.* Even if we are correct in determining that the price of a stock will decline, we run the risk of incorrectly determining when the decline will take place, i.e., being right too soon. Although a company is overvalued, it could conceivably take some time for the price to come down; during which you are vulnerable to interest, margin calls, etc.
  4. *Inflation.* History has shown that over the long term, most stocks appreciate. Even if a company barely improves over time, inflation should drive its share price up somewhat. In fact, short selling may not be appropriate in times of inflation for that very reason, as prices may adjust upwards regardless of the value of the stock.
- **Margin Transactions**: We will purchase stocks for your portfolio with money borrowed from your brokerage account. This allows you to purchase more stock than you would be able to with your available cash, and allows us to purchase stock without selling other holdings. A risk in margin trading is that, in volatile markets, securities prices can fall very quickly. If the value of

the securities in your account minus what you owe the broker falls below a certain level, the broker will issue a "margin call", and you will be required to sell your position in the security purchased on margin or add more cash to the account. In some circumstances, you may lose more money than you originally invested.

- **Option Writing:** Including Covered Options, Uncovered Options or Spreading Strategies: We may use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from an underlying asset.

The two types of options are calls and puts:

1. A call gives us the right to buy an asset at a certain price within a specific period of time. We will buy a call if we have determined that the stock will increase substantially before the option expires.
2. A put gives us the holder the right to sell an asset at a certain price within a specific period of time. We will buy a put if we have determined that the price of the stock will fall before the option expires.

We will use options to speculate on the possibility of a sharp price swing. We will also use options to "hedge" a purchase of the underlying security; in other words, we will use an option purchase to limit the potential upside and downside of a security we have purchased for your portfolio.

We use "covered calls", in which we sell an option on security you own. In this strategy, you receive a fee for making the option available, and the person purchasing the option has the right to buy the security from you at an agreed-upon price. A risk of covered calls is that the option buyer does not have to exercise the option, so that if we want to sell the stock prior to the end of the option agreement, we have to buy the option back from the option buyer, for a possible loss.

We use a "spreading strategy", in which we purchase two or more option contracts (for example, a call option that you buy and a call option that you sell) for the same underlying security. This effectively puts you on both sides of the market, but with the ability to vary price, time and other factors. A risk of spreading strategies is that the ability to fully profit from a price swing is limited.

## **Risk of Loss**

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Investing in securities involves risk of loss that clients should be prepared to bear. Securities investments are not guaranteed and you may lose money on your investments. We ask that you work with us to help us understand your tolerance for risk.

The firm may recommend the investment in privately placed collective investment vehicles (some of which may be typically called "hedge funds" or "fund of funds") for certain clients. The managers of these vehicles will have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. The hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is an absence of regulation. There are substantial risks incidental to the ownership of such investments and any investment is speculative and involves a high degree of risk of loss by the client of their entire investment. Investments in such are only for investors who qualify as accredited investors or qualified purchasers, as those terms are defined in the Securities Act. Investors in such must be able to

bear the economic risk of losing their entire investment and understand that such an investment cannot readily be sold and is not suitable for an investor unless the investor has available other personal liquid assets to assure that their investment will not cause any undue financial difficulties or affect the investor's ability to provide for current needs and possible personal financial contingencies. Clients should consult their attorney concerning such an investment and consult with independent tax counsel regarding the tax considerations of investing. No public market exists or is anticipated to exist for such investments. Therefore, each prospective investor must consider its investment to be illiquid. There are numerous other risks in investing in these securities. The client will receive a private placement memorandum and/or other documents explaining such risks.

### **Description of Material, Significant or Unusual Risks**

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We generally invest client's cash balances in money market funds, FDIC Insured Certificates of Deposit, high-grade commercial paper and/or government backed debt instruments. Ultimately, we try to achieve the highest return on our client's cash balances through relatively low-risk conservative investments. In most cases, at least a partial cash balance will be maintained in a money market account so that our firm may debit advisory fees for our services related to our asset management service, as applicable.

## **Item 9: Disciplinary Information**

We have determined that our firm and management have no disciplinary events to disclose.

## **Item 10: Other Financial Industry Activities & Affiliations**

Our firm or our management persons have a material relationship with the following related person(s) as follows:

### **1. Insurance Agent**

Management person, Wa Huong, is an independent licensed insurance agent. As such, he may offer insurance products and receive normal and customary commissions as a result of insurance transactions. He spends about 5% of their time on these activities. A potential conflict of interest may exist between the interests of Mr. Huong and those of the advisory clients as the purchase of insurance products results in additional compensation for Mr. Huong. Clients are under no obligation to act upon any recommendations of Mr. Huong or effect any transactions through Mr. Huong if they decide to follow the recommendations.

### **2. Morling & Company**

Mr. Peter Ling's primary business is through his concurrent employment as an executive officer of the business and tax consulting firm of Morling & Company. He spends about 40% of his time on these activities. A conflict of interest may exist as our firm may recommend Morling &

Company to advisory clients whom seek business and tax services, thus resulting in compensation being paid to our principal. Clients are under no obligation to act upon our recommendations.

The compensation paid to us by third party managers may vary, and thus, there may be a conflict of interest in recommending a manager who shares a larger portion of its advisory fees over another manager. Our firm's fees are not higher than they would have been had our client obtained services directly from the third party money manager. Prior to referring clients to third party advisors, we will ensure that third party advisors are licensed or notice filed with the respective authorities. A potential conflict of interest in utilizing third party advisors may be an incentive to us in selecting a particular advisor over another in the form of fees or services. In order to minimize this conflict our firm will make our selections in the best interest of our clients.

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

We recognize that the personal investment transactions of members and employees of our firm demand the application of a high Code of Ethics and require that all such transactions be carried out in a way that does not endanger the interest of any client. At the same time, we believe that if investment goals are similar for clients and for members and employees of our firm, it is logical that there be common ownership of some securities.

Therefore, in order to prevent conflicts of interest, we have in place a set of procedures with respect to transactions effected by our members, officers and employees for their personal accounts<sup>2</sup>. In order to monitor compliance with our personal trading policy, we have a quarterly securities transaction reporting system for all of our associates.

Furthermore, our firm has established a Code of Ethics which applies to all of our associated persons. An investment adviser is considered a fiduciary. As a fiduciary, it is an investment adviser's responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our clients at all times. We have a fiduciary duty to all clients. Our fiduciary duty is considered the core underlying principle for our Code of Ethics which also includes Insider Trading and Personal Securities Transactions Policies and Procedures. We require all of our supervised persons to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. Upon employment or affiliation and at least annually thereafter, all supervised persons will sign an acknowledgement that they have read, understand, and agree to comply with our Code of Ethics. Our firm and supervised persons must conduct business in an honest, ethical, and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients. This disclosure is provided to give all clients a summary of our Code of Ethics. However, if a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided promptly upon request.

The firm or individuals associated with the firm may buy or sell for their personal accounts investment products identical to those recommended to Clients. It is our expressed policy that no person employed by

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<sup>2</sup> For purposes of the policy, our associate's personal account generally includes any account (a) in the name of our associate, his/her spouse, his/her minor children or other dependents residing in the same household, (b) for which our associate is a trustee or executor, or (c) which our associate controls, including our client accounts which our associate controls and/or a member of his/her household has a direct or indirect beneficial interest in.

the firm may enter an order to purchase or sell any security prior to a transaction being implemented for an advisory account, and therefore, preventing such employees from benefiting from transactions placed on behalf of advisory accounts. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics, a copy of which is available upon request.

## Item 12: Brokerage Practices

### Selecting a Brokerage Firm

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We seek to recommend a custodian/broker who will hold your assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others, these:

- Ability to maintain the confidentiality of trading intentions
- Timeliness of execution
- Timeliness and accuracy of trade confirmations
- Liquidity of the securities traded
- Willingness to commit capital
- Ability to place trades in difficult market environments
- Research services provided
- Ability to provide investment ideas
- Execution facilitation services provided
- Record keeping services provided
- Custody services provided
- Frequency and correction of trading errors
- Ability to access a variety of market venues
- Expertise as it relates to specific securities
- Financial condition
- Business reputation

With this in consideration, our firm has an arrangement with Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab") and participates in the TD Ameritrade Institutional program. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. ("TD Ameritrade") member FINRA/SIPC/NFA. Schwab and TD Ameritrade offer services to independent investment advisers which include custody of securities, trade execution, clearance and settlement of transactions.

Schwab and TD Ameritrade charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions). Schwab and TD Ameritrade enable us to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. The commission and transaction fees charged by Schwab and TD Ameritrade may be higher or lower than those charged by other custodians and broker-dealers.



Our clients may pay a commission to Schwab and TD Ameritrade that is higher than another qualified broker dealer might charge to effect the same transaction where we determine in good faith that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although we will seek competitive rates, to the benefit of all clients, we may not necessarily obtain the lowest possible commission rates for specific client account transactions.

### **Soft Dollars**

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Our firm does not accept products or services that do not qualify for Safe Harbor outlined in Section 28(e) of the Securities Exchange Act of 1934, such as those services that do not aid in investment decision-making or trade execution.

Schwab and TD Ameritrade may make certain research and brokerage services available at no additional cost to our firm all of which qualify for the safe harbor exemption defined in Section 28(e) of the Securities Exchange Act of 1934. These services may be directly from independent research companies, as selected by our firm (within specific parameters). Research products and services provided by Schwab and TD Ameritrade may include research reports on recommendations or other information about, particular companies or industries; economic surveys, data and analyses; financial publications; portfolio evaluation services; financial database software and services; computerized news and pricing services; quotation equipment for use in running software used in investment decision-making; and other products or services that provide lawful and appropriate assistance by Schwab and TD Ameritrade to our firm in the performance of our investment decision-making responsibilities.

We do not use client brokerage commissions to obtain research or other products or services. The aforementioned research and brokerage services are used by our firm to manage accounts for which we have investment discretion. Without this arrangement, our firm might be compelled to purchase the same or similar services at our own expense.

As a result of receiving these services, we may have an incentive to continue to use or expand the use of Schwab and TD Ameritrade services. Our firm examined this potential conflict of interest when we chose to enter into the relationship with Schwab and TD Ameritrade and we have determined that the relationship is in the best interest of our firm's clients and satisfies our fiduciary obligations, including our duty to seek best execution.

### **Directed Brokerage**

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Neither we nor any of firm's related persons have discretionary authority in making the determination of the brokers with whom orders for the purchase or sale of securities are placed for execution, nor do we have discretion to determine the commission rates at which such securities transactions are effected. Consequently, our firm does not receive brokerage for client referrals nor do we acquire client brokerage commissions (or markups or markdowns).

We allow clients to direct brokerage. However, we may be unable to achieve the most favorable execution of client transactions. Client directed brokerage may cost clients more money. For example, in



a directed brokerage account, you may pay higher brokerage commissions because we may not be able to aggregate orders to reduce transaction costs, or you may receive less favorable prices.

### **Special Considerations for ERISA Clients**

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A retirement or ERISA plan client may direct all or part of portfolio transactions for its account through a specific broker or dealer in order to obtain goods or services on behalf of the plan. Such direction is permitted provided that the goods and services provided are reasonable expenses of the plan incurred in the ordinary course of its business for which it otherwise would be obligated and empowered to pay. ERISA prohibits directed brokerage arrangements when the goods or services purchased are not for the exclusive benefit of the plan. Consequently, we will request that plan sponsors who direct plan brokerage provide us with a letter documenting that this arrangement will be for the exclusive benefit of the plan.

### **Aggregation of Purchase or Sale**

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We perform investment management services for various clients. There are occasions on which portfolio transactions may be executed as part of concurrent authorizations to purchase or sell the same security for numerous accounts served by our firm, which involve accounts with similar investment objectives. Although such concurrent authorizations potentially could be either advantageous or disadvantageous to any one or more particular accounts, they are affected only when we believe that to do so will be in the best interest of the effected accounts. When such concurrent authorizations occur, the objective is to allocate the executions in a manner which is deemed equitable to the accounts involved. In any given situation, we attempt to allocate trade executions in the most equitable manner possible, taking into consideration client objectives, current asset allocation and availability of funds using price averaging, proration and consistently non-arbitrary methods of allocation.

## **Item 13: Review of Accounts or Financial Plans**

Our investment adviser representatives review accounts on at least a quarterly basis for our Asset Management clients. Third Party Money Management clients receive at least quarterly reviews. The nature of these reviews is to learn whether clients' accounts are in line with their investment objectives, appropriately positioned based on market conditions, and investment policies, if applicable.

We provide performance reports to clients on at least a quarterly basis. On at least an annual basis, we initiate contact with clients (both Asset Management and Third Party Money Management) to have an account review.

We may review client accounts more frequently than described above. Among the factors which may trigger an off-cycle review are major market or economic events, the client's life events, requests by the client, etc.

Financial planning clients do not receive reviews of their written plans unless they take action to schedule a financial consultation with us. We do not provide ongoing services to financial planning clients, but are willing to meet with such clients upon their request to discuss updates to their plans, changes in their circumstances, etc. Financial Planning clients do not receive written or verbal updated

reports regarding their financial plans unless they separately contract with us for a post-financial plan meeting or update to their initial written financial plan.

## Item 14: Client Referrals & Other Compensation

We receive an economic benefit from our Custodians in the form of the support products and services it makes available to us and other independent investment advisors that have their clients maintain accounts at Schwab and TD Ameritrade. These products and services, how they benefit us, and the related conflicts of interest are described above (*see Item 12 –Brokerage Practices*). The availability to us of our custodian's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

### Referral Fees

We do not pay referral fees (non-commission based) to independent solicitors (non-registered representatives) for the referral of their clients to our firm in accordance with State rules and regulations.

However, we may pay referral fees to investment advisory representatives of our firm for introducing clients to us. As a matter of firm practice, the advisory fees paid to us by clients referred to us by our investment advisory representatives are not increased as a result of any referral.

## Item 15: Custody

As noted in Item 5 above, our firm has the ability to debit our advisory fees directly from client accounts. We do not have actual or constructive custody of client assets in any other manner than described above. The Securities and Exchange Commission generally takes the position that any arrangement under which a registered investment adviser is authorized or permitted to withdraw client funds or securities maintained with a custodian upon the adviser's instruction to the custodian is deemed to have custody of client funds and securities. As such, we have adopted the following safeguarding procedures:

1. Our clients must provide us with written authorization permitting direct payment to us of our advisory fees from their account(s) maintained by a custodian who is independent of our firm;
2. We send a statement to our clients showing the amount of our fee, the value of your assets upon which our fee was based, and the specific manner in which our fee was calculated;
3. We must disclose to you that it is your responsibility to verify the accuracy of our fee calculation, and that the custodian will not determine whether the fee is properly calculated; and
4. Your account custodian must agree to send you a statement, at least quarterly, showing all disbursements from your account, including advisory fees.
5. Due Inquiry in which we ensure on a regular basis that the custodian does indeed send such quarterly statements.

We encourage our clients to raise any questions with us about the custody, safety or security of their assets. The custodians we do business with will send you independent account statements listing your account balance(s), transaction history and any fee debits or other fees taken out of your account.

### **Item 16: Investment Discretion**

Clients have the option of providing our firm with investment discretion on their behalf, pursuant to an executed investment advisory client agreement. By granting investment discretion, we are authorized to execute securities transactions, which securities are bought and sold, the total amount to be bought and sold, and the costs at which the transactions will be effected. Limitations may be imposed by the client in the form of specific constraints on any of these areas of discretion with our firm's written acknowledgement.

### **Item 17: Voting Client Securities**

We do not and will not accept the proxy authority to vote client securities. Clients will receive proxies or other solicitations directly from their custodian or a transfer agent. In the event that proxies are sent to our firm, we will forward them on to you and ask the party who sent them to mail them directly to you in the future. Clients may call, write or email us to discuss questions they may have about particular proxy votes or other solicitations.

Third party money managers selected or recommended by our firm may vote proxies for clients. Therefore, except in the event a third party money manager votes proxies, clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets. Therefore (except for proxies that may be voted by a third party money manager), our firm and/or you shall instruct your qualified custodian to forward to you copies of all proxies and shareholder communications relating to your investment assets.

### **Item 18: Financial Information**

We do not require the prepayment of more than \$1,200 in fees and six or more months in advance.

We do not take custody of client funds or securities.

We do not have a financial condition or commitment that impairs our ability to meet contractual and fiduciary obligations to clients.

We have never been the subject of a bankruptcy proceeding.