

**Item 1 – Cover Page**

**Part 2A of Form ADV:**

**FIRM BROCHURE**

**BALASA DINVERNO FOLTZ LLC**

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This brochure provides information about the qualifications and business practices of Balasa Dinverno Foltz LLC (BDF or Firm). If you have any questions about the contents of this brochure, please contact us at (630)875-4926. 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. It is highly recommended this document be read in its entirety.

Additional information about BDF is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for BDF is 113630.

## Item 2 – Material Changes

In the past, BDF offered or delivered information about its qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, BDF will ensure that its clients receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of the Firm's fiscal year. BDF may provide other ongoing disclosure information about material changes as necessary. This version of BDF's Brochure contains material changes from the last annual update of the Brochure dated March 18, 2011.

Material changes in this document:

1. [4/11/2011] Changes made as follows:
  - Part A, Item 4, C: Amended to describe the obligations and responsibilities of BDF and clients in select engagements where BDF performs financial planning services.
  - Part A, Item 8: Amended to state that "BDF does not have any proprietary investment products and, accordingly, does not invest any client funds in such investments."
  - Part A, Item 12: Added the following to the paragraph discussing Directed Brokerage: "In addition, where a Client directs BDF to use a particular custodian broker-dealer, such custodian may not permit BDF to buy every security BDF desires to purchase for client portfolios from time-to-time."
  - Part A, Item 13: Added Nicholas Cosky's name.
  - Part B Supplements: A supplement was added for Nicholas Cosky.
  - Part B Supplement – Anthony Dinverno: Made an addition to Anthony Dinverno's Business Background.
  - Part B Supplement – Jennifer Lake: A correction was made to Jennifer Lake's business background in her supplement by deleting the following: "Vice President and Secretary, BDF Wealth Management Co. from 6/04 to Present" and inserting "Advisor, Balasa Dinverno Foltz LLC, from 7/07 to Present" in its place.
2. [5/2/2011] Changes made as follows:
  - Added Chicago office location.
  - Item 12 – Brokerage Practices: Added "FINRA/SIPC/NFA" to TD Ameritrade's description.
3. [8/18/2011] Changes made as follows:
  - Part B Supplements: Added: Casey Shaw, Nicholas Dalgety, Matthew Haas and Neil Teubel. Deleted Jonathan Meek and Janet Petran.
  - Part B Supplements: Deleted the following from Phil Ridophi's Supplement: "Chief Compliance Officer, Secretary," which was included in error.
  - Changed Chicago location address.
  - Item 12 – Brokerage Practices: Changed the Schwab Institutional disclosure.
  - Item 14 – Other Compensation: Schwab's contribution to the Make-a-Wish Foundation is disclosed.
4. [9/19/2011] Changes made as follows:
  - Part A, Item 13: Added Justin Peacock's name
  - Part B Supplements: A supplement was added for Justin Peacock
5. [2/10/2012] Changes made as follows:
  - Item 4: Assets under management changed to reflect current amount
  - Item 14: Deleted reference to the Hewitt Financial Services LLC referral program
  - Item 17: Reflected the change in the Firm's proxy voting service from Glass Lewis & Co., LLC to Broadridge Financial Solutions, Inc.
6. [2/28/2012] Changes made as follows:
  - Item 4: Changed assets under management to reflect data as of 2/28/2012
  - Item 13: Changed titles of professionals

### Item 3 – Table of Contents

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## **Item 4 - Advisory Business**

### **A. Description of BDF**

Balasa Dinverno Foltz LLC (BDF) is a fee-only, SEC-registered investment advisor with its principal place of business in Itasca, Illinois and has been in business since 1986. BDF Wealth Management Co. is the principal owner of BDF. Mark Edward Balasa, Co-CEO of BDF, Armond Alfred Dinverno, Co-CEO and President of BDF, and Michael Craig Foltz, Vice President and Chief Compliance Officer of BDF, are principal owners of BDF Wealth Management Co. and are, therefore, indirect principal owners of BDF. The Firm's registration with the SEC as a Registered Investment Advisor does not imply that it has a certain level of skill or training.

### **B. Types of Services Offered**

**1.) Investment Supervisory Services.** BDF provides continuous advice to a client regarding the investment of client funds based on his or her individual needs. Through personal discussions in which investment goals, objectives and risk tolerance based on a client's particular circumstances are established, the Firm develops an asset allocation strategy and individual investment policy to create and manage each client's investment portfolio. To design each client's portfolio, the Firm utilizes the principles of diversification and risk analysis and applies them to the client's investment objectives and risk tolerance. Once a client portfolio is established, BDF monitors the securities on an ongoing basis and reviews the portfolio on at least a quarterly basis. Where appropriate, BDF will rebalance and reallocate certain client accounts on at least a quarterly basis to maintain or adjust the initially-recommended asset allocation. The Firm provides these portfolio management services on a discretionary basis to individuals, trusts, estates, pension and profit sharing plans, charitable organizations and other entities such as corporations and limited liability companies. Account supervision is guided by the stated objectives of the client as more fully described in an Investment Policy Statement signed by the client. Clients may impose restrictions on investing in certain securities or types of securities.

**2.) Financial Planning Services.** BDF may provide financial planning services in addition to its investment management services. The Firm does not provide financial planning services to every BDF client. BDF, at its sole discretion, may address a limited number of financial planning topics with some of its clients and, when it does so, may prepare a written report summarizing its findings in one or more of the following areas:

1. Personal net worth statement
2. Retirement cash flow projection
3. Investments
4. Estate planning
5. Insurance
6. Education funding
7. Income tax considerations

Note the following:

**Extraordinary Services.** In the event BDF determines the client requires extraordinary financial planning or consultation services, it may determine to charge for such additional services and explain the amount and nature of the additional charge in a separate written notice to the client.

**Stand-Alone Financial Planning Engagement.** The Firm may, in its sole discretion, provide financial planning or consulting services on a stand-alone basis including those for investment and non-investment related matters.

**3.) Nondiscretionary Reporting Services.** BDF provides non-discretionary administration and reporting services. Under the terms of such arrangements, the Firm is not responsible for the management, monitoring or providing of investment recommendations to clients. All trading by BDF will be conducted pursuant to specific client requests and directions. Clients that determine to engage the Firm on a non-discretionary investment advisory basis must be willing to accept that BDF cannot effect any account transactions without obtaining the client's prior verbal consent to any such transactions. Thus, if a client is unavailable in the event of a market correction, BDF will be unable to effect any account transactions (as it would for its discretionary clients) without first obtaining the client's verbal consent.

**ByAllAccounts, Inc.** - BDF, in conjunction with the services provided by ByAllAccounts, Inc. (or another company providing similar services), may also provide periodic comprehensive reporting services which can incorporate all of a client's investment assets, including those investment assets that are not part of the assets managed by BDF (the "Excluded Assets"). Should the client receive such reporting services, the client acknowledges and understands that with respect to the Excluded Assets, BDF's service is limited to reporting services only and does not include investment management, review, monitoring services, investment recommendations or advice. As such, the client and not BDF shall be exclusively responsible for the investment performance of the Excluded Assets. In the event the client desires BDF to provide investment management services with respect to the Excluded Assets, the client may engage BDF to do so for a separate and additional fee pursuant to the terms and conditions of the Investment Advisory Agreement between BDF and the client.

### **C. Tailoring Services to Individual Needs of Client**

BDF tailors its services to the individual needs of each client as follows:

**Investment Supervisory Services.** As noted above, the Firm engages clients in personal discussions in which the client's personal investment goals, objectives and risk tolerance are established. BDF then develops an asset allocation strategy and individual investment policy for the client to create and manage that client's investment portfolio. BDF encourages its clients to meet on a regular basis to discuss their portfolio and, if applicable, their financial plan.

**Financial Planning Services.** When BDF provides financial planning or related consulting services in addition to its investment management services or on a stand-alone basis, the following should be noted regarding the *obligations and responsibilities of the client and BDF* with respect to:

1. **Defining Goals, Needs and Objectives.** BDF will provide the client a Data Gathering Guide and have meetings and other communications (e.g. telephone or email) to develop the client's goals, needs and objectives. The client shall provide BDF with the goals, needs and objectives the client desires to achieve, including but not limited to those concerning: 1.) spending before and during retirement; 2.) retirement age; 3.) age of mortality; 4.) major asset purchases; 4.) estate planning goals; 5.) gifts to be made; 6.) charitable donations; and 7.) savings rate. BDF then assimilates the client's goals, needs and objectives into the written financial plan.
2. **Gathering and Providing Appropriate Data.** BDF will present to the client, in the Data Gathering Guide and other communications, a list of information BDF needs to prepare the financial plan. The client agrees to provide the requested information and any other information the client deems relevant to the preparation of the financial plan. The client shall verify the accuracy of all information presented to BDF. In addition, the client will authorize the Firm and client's other advisors to communicate with each other and permit the sharing of client's information and documentation. BDF shall not be required to verify any information it receives from the client or client's other professional advisors and is expressly authorized to rely on any such information it receives.
3. **Examine Current Course of Action Without Changes.** After learning the client's data, goals, needs and objectives, BDF will present to the client its findings on the client's retirement cash flow, investment portfolio, life, disability and homeowner's insurance coverage, education funding and estate planning document provisions if the client makes no changes to the data and assumptions presented. The client's responsibilities include reviewing BDF's findings and informing BDF of any changes that should be made including that to the assumptions used by BDF. In addition, the client must determine that the information given to BDF is current and complete and that no material documentation is missing.
4. **Formulation of Recommended Changes.** BDF presents its financial planning findings and recommended actions to the client. It is the client's responsibility to review BDF's recommendations in the financial plan and is free to accept or reject any recommendation from BDF.
5. **Implementation of Recommendations.** BDF's obligation is to merely present financial planning recommendations to the client and does not have the obligation or responsibility to implement them. BDF is not a law firm and does not draft documents so the client must present BDF's findings and recommendations to the client's attorney and engage such professional to design the actual strategies used and draft documentation necessary to implement any such strategies. The client shall have the sole authority and obligation regarding the implementation, acceptance, or rejection of any recommendation given by BDF. Also, BDF is not an accounting, tax advisory or insurance firm, therefore, the client must retain firms of client's choosing to implement any related recommendations made by BDF. If requested by the client, BDF may recommend the services of other professionals for development and implementation of strategies within the professional's particular area of expertise. The client is under no obligation to engage the services of any such recommended professional and retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from BDF.

6. **Monitoring Responsibilities.** BDF will, from time-to-time, discuss with the client the status of the client's implementation of BDF's recommendations. BDF does not take the responsibility of monitoring such implementation, since that is the client's obligation as it has the relationship with the outside professionals hired for the particular assignments. After BDF delivers its written financial planning report to the client, BDF's financial planning engagement is deemed completed, but the client is encouraged to discuss with BDF the status of implementation and any changes that may affect the plan or any assumption used by BDF in creating the plan. It is the client's responsibility to promptly notify BDF if there is ever any change in the client's financial situation, investment policy or investment objectives for the purpose of reviewing, evaluating or revising BDF's previous recommendations and services. If the client desires the financial plan to be updated or revised, it is the client's obligation to request that BDF perform such work.

**D. Wrap Fee Programs.** BDF does not participate in wrap fee programs.

**E. Amount of Assets Managed.** The amount of assets managed by BDF is as follows:

On a discretionary basis: \$1,896,924,904

On a non-discretionary basis: \$ 112,195,479

The amounts noted above are as of March 13, 2012.

## **Item 5 – Fees and Compensation**

### **A. Fee Schedule**

#### **Investment Supervisory Services or Portfolio Trading and Administration Services**

The annual fee for investment supervisory services as well as portfolio trading and administration services will be charged as a percentage of assets under management, according to the schedule below:

<u>Assets under Management:</u>	<u>Annual Fee (%)</u>
First \$1,000,000	1.00%
Amounts between \$1-3 million	0.90%
Amounts between \$3-5 million	0.80%
Amounts between \$5-10 million	0.60%
Amounts above \$10,000,000	0.50%

Although BDF does not require a minimum dollar value of any account to which it provides advisory services, each client will be charged a minimum annual fee of \$10,000 (\$2,500 quarterly).

The fee schedule noted above is negotiable in certain circumstances. BDF, in its sole discretion, may reduce its minimum fee and/or charge a lesser investment management fee based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar

amount of assets to be managed, related accounts, account composition, negotiations with the client, etc.). Clients who have assigned their advisory contracts with Balasa & Hoffman, Inc. (B&H) and Dinverno & Foltz Financial Group, Ltd. (DFFG) to BDF may have previously negotiated fee schedules that deviate from the above schedule. The specific fee schedule negotiated by these prior clients of B&H and DFFG did not exceed 1.25% on the first \$500,000. B&H and DFFG may have negotiated fee schedules lower than the currently applicable schedule listed above. Presently, the minimum annual fee for this service is \$10,000. There is no minimum dollar value for any account receiving this service.

**Written Investment Management Agreement.** Prior to engaging BDF to provide investment management services, the client shall enter into a formal Investment Management Agreement with BDF setting forth the terms and conditions under which BDF shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian. The Investment Management Agreement between BDF and the client will continue in effect until terminated by either party for any reason by written notice in accordance with the terms of the Investment Management Agreement.

Neither BDF nor the client may assign the Investment Management Agreement without the prior consent of the other party. Transactions that do not result in a change of actual control or management of BDF shall not be considered an assignment. A copy of BDF's written disclosure statement as set forth on Part II of Form ADV (or an equivalent brochure) shall be provided to each client prior to or contemporaneously with the execution of the Investment Management Agreement. Any client who has not received a copy of BDF's written disclosure statement at least forty-eight hours prior to executing the Investment Management Agreement shall have five business days subsequent to executing the agreement to terminate BDF's services without penalty.

**Financial Planning Services.** When BDF provides financial planning services to an investment management client (Note: it does not do so for every investment management client and whether to do so is at BDF's sole discretion), the Firm does not charge an additional fee for such services unless BDF determines the client requires extraordinary financial planning or consultation services. When BDF determines the client requires extraordinary financial planning or consultation services, the Firm may determine to charge for such additional services and explain the amount and nature of the additional charge in a separate written notice to the client.

**Stand-Alone Financial Planning Engagement.** For financial planning or consulting services performed by BDF on a stand-alone basis including those for investment and non-investment related matters, BDF will generally charge a fixed or hourly fee for such services. BDF's financial planning and consulting fees are negotiable, but generally range from \$6,000 to \$10,000 on a fixed fee basis and from \$200 to \$300 per hour if it charges on an hourly rate basis. In an hourly rate engagement, the fee charged depends on the level and scope of the services required and the professionals rendering the services.

- B. Collecting Client Fees.** Fees charged by BDF are deducted from clients' assets in custodial accounts, but in some cases at BDF's sole discretion clients may be billed for BDF fees. BDF's annual investment management fee shall be prorated and paid quarterly. Both BDF's Investment Management Agreement and the custodial/clearing agreement shall authorize the custodian to debit the account for the amount of BDF's investment advisory fee and to directly remit that management fee to BDF in compliance with SEC procedures.



**C. Custodian Fees and Fund Expenses.** All fees paid to BDF for investment advisory services are separate and distinct from the following fees and expenses, which clients will incur:

- 1. Custodian/Broker-Dealer Fees.** Fees and expenses charged by broker-dealers such as Charles Schwab & Co., Inc. and TD Ameritrade in the form of brokerage commissions or transaction fees for effecting certain securities transactions. Transaction fees are charged for certain no-load mutual funds and commissions are charged for exchange-traded fund, individual fixed income and equity securities transactions. Custodians may charge other fees in addition to commissions and transaction fees. See the discussion of brokerage in Item 12 of this brochure.
- 2. Fund Expenses.** Fees and expenses charged by mutual funds and exchange-traded funds to their shareholders or investors. These fees and expenses are described in each fund's prospectus and will generally include a management fee, other fund expenses, and a possible distribution fee. A client could invest in a mutual fund or exchange-traded fund directly without the services of BDF. In that case, the client would not receive the services provided by BDF which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and the fee charged by BDF to fully understand the total amount of fees to be paid by the client and evaluate the advisory services being provided.

To the extent that a client permits or directs the use of margin (BDF does not recommend margin for investment purposes) and thereafter margin is employed in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to BDF may be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential conflict of interest whereby the use of margin shall correspondingly increase the management fee payable to BDF. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

**D. Fees Paid in Advance.** BDF's annual investment advisory fee shall be prorated and paid quarterly, in advance, based upon the market value of the assets on the last business day of the previous quarter. All current BDF and prior B&H clients will be invoiced in advance at the beginning of each calendar quarter based upon the market value of the client's account on the last business day of the last month of the previous quarter. Prior clients of DFFG will be invoiced in arrears at the end of each calendar quarter based upon the market value of the client's account on the last business day of the quarter. Upon termination of the Investment Management Agreement, BDF shall credit the client account for the pro-rated portion of the Firm's quarterly investment management fee and any earned, unpaid fees will be due and payable.

## **Item 6 – Performance-Based Fees**

The Firm's fee is calculated as described above and is not charged on the basis of a share of capital gains upon or capital appreciation of the funds or any portion of the funds of a client. SEC Rule 204(a)(1).

## **Item 7 – Types of Clients**

BDF generally provides advisory services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, and other business entities.

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

Currently, BDF recommends that clients primarily allocate investment management assets among one or more of the following various securities: individual equities, individual fixed income, mutual funds and exchange-traded funds and other exchange-traded products on a discretionary basis in accordance with the investment objectives of the client as set forth in an Investment Policy Statement prepared by BDF for review and acceptance by the client. BDF employs fundamental and technical analyses to formulate investment advice. BDF does not have any proprietary investment products and, accordingly, does not invest any client funds in such investments.

**Fundamental Analysis.** Fundamental analysis of a business involves analyzing its income statement, financial statements and health, its management and competitive advantages, and its competitors and markets. Fundamental analysis school of thought maintains that markets may mis-price a security in the short run, but that the "correct" price will eventually be reached. Profits can be made by trading the mis-priced security and then waiting for the market to recognize its "mistake" and re-price the security. However, fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, since 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 stock. Therefore, unforeseen market conditions and/or company developments may result in significant price fluctuations that can lead to investor losses.

**Technical Analysis.** Technical analysis seeks to identify price patterns and trends in financial markets and attempt to exploit those patterns. The Firm follows and examines such indicators as price, volume, moving averages of the price and market sentiment. Since technical analysis predictions are only extrapolations from historical price patterns, investors bear risk that these patterns will not reoccur as expected. Moreover, technical analysis does not consider the underlying financial condition of a company. This presents a risk to an investor, since a poorly-managed or financially unsound company may underperform regardless of market movement.

**Risks for All Forms of Analysis.** The Firm's investment analysis methods relies on the assumption that the companies or funds whose securities BDF purchases and sells, the rating agencies that review such securities, and other publicly-available sources of information about such securities, are providing accurate and unbiased data. There is always a risk that BDF's analysis may be compromised by inaccurate or misleading information.

BDF employs the following investment strategies to implement investment advice given to clients:

**Long-Term Purchases.** BDF mostly purchases securities with the idea of holding them in the client's account for a year or longer. The Firm may do this because it believes the securities to be currently undervalued. BDF may do this because it wants 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, short-term gains may not be taken advantage of that could be profitable to a client. Moreover, if BDF's projections are incorrect, a security may decline sharply in value before the Firm makes the decision to sell.

**Short-Term Purchases.** At times, BDF may also purchase securities with the idea of selling them within a relatively short time (typically a year or less). The Firm may do this in an attempt to take advantage of conditions that it believes will soon result in a favorable price swing in the securities purchased. A risk in a short-term purchase strategy is that, should the anticipated price swing not materialize, BDF is left with the choice 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.

**Investment Risk.** Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy, including the investments and/or investment strategies recommended or undertaken by BDF, will be profitable or equal any specific performance level. Clients should understand that investing in any securities, including mutual funds or exchange-traded funds, involves a risk of loss of both income and principal.

## **Item 9 – Disciplinary Information**

BDF has no reportable disciplinary events to disclose.

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

Neither BDF nor any of its employees engage in any other financial industry activities or have any other financial industry affiliations.

**Non-Investment Consulting/Implementation Services.** BDF is not a law, accounting or insurance firm, and no portion of BDF's services should be construed as those of any one of the professionals listed. To the extent requested by a client, BDF may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance, etc.). The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from BDF. BDF does not receive any compensation from other professionals or firms BDF may refer clients to.

**No Attorney-Client or CPA-Client Relationship.** Although certain BDF representatives may be licensed attorneys or Certified Public Accountants, no such persons provide legal or accounting

services to any of BDF's clients and no corresponding attorney-client or CPA-client relationship is established.

## **Item 11 - Code of Ethics, Participation in Client Transactions and Personal Trading**

**A. Code of Ethics Disclosure.** BDF has adopted a Code of Ethics, which sets forth high ethical standards of business conduct that is required of its employees, including compliance with applicable federal securities laws. The Firm's Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the Firm's access persons. Among other things, the Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. The Code of Ethics provides for oversight, enforcement and recordkeeping provisions. A copy of the Code of Ethics is available to the Firm's advisory clients and prospective clients upon request to Michael Foltz, Chief Compliance Officer, at the Firm's principal office address.

**B. Participation in Client Transactions and Personal Trading.** BDF or individuals associated with the Firm may buy or sell securities identical to those recommended to customers for their personal accounts. In addition, any related person(s) may have an interest or position in certain securities which may also be recommended to a client. It is the express policy of BDF that no person employed by the Firm may purchase or sell any security prior to any transactions being implemented for an advisory account, and therefore, preventing such employees from benefiting from transactions placed on behalf of advisory accounts. See the disclosure in item 12B below regarding block/directed trades. As the situations above may represent a conflict of interest, BDF established the following restrictions in order to ensure its fiduciary responsibilities:

1. No BDF principal or employee may buy or sell securities for his or her personal portfolio where his or her decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public on reasonable inquiry. No principal or employee of the Firm may prefer his or her own interest to that of any advisory client.
2. BDF maintains a list of all securities holdings for the Firm and anyone associated with the Firm's advisory practice with access to advisory recommendations. These holdings are reviewed on a regular basis by Michael Foltz, the Firm's Chief Compliance Officer.
3. BDF emphasizes the unrestricted right of the client to decline to implement any advice rendered, except in situations where the Firm is granted discretionary authority.
4. All of the Firm's principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
5. Any individual not in observance of the above may be subject to termination.

BDF has implemented the above investment policy relative to personal securities transactions. This investment policy is part of the Firm's overall Code of Ethics which serves to establish a standard of business conduct for all of BDF's Associated Persons that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

## Item 12 – Brokerage Practices

- A. **Selecting Broker-Dealers.** For clients in need of brokerage and custodial services, BDF will recommend that their investment management accounts be maintained at either the Schwab Advisor Services Division of Charles Schwab & Co., Inc. (Schwab) or TD Ameritrade, Inc. (TDA). Both Schwab and TDA are FINRA-registered broker-dealers and member SIPC. BDF is independently owned and not affiliated with Schwab or TDA.

Factors which BDF considers in recommending Schwab or TDA (or any other broker-dealer/custodian) to clients include financial strength, reputation, execution, pricing, research, and service. Schwab enables BDF to obtain many no-load mutual funds without transaction charges and other no-load and load-waived funds at nominal transaction charges. Broker-dealers and custodians generally charge commissions and/or transaction fees to effect certain securities transactions. Schwab and TDA generally charge commission rates that are generally considered discounted from customary retail commission rates. The brokerage commissions and transaction fees charged by Schwab and TDA (or other designated broker-dealer/custodian) are exclusive of, and in addition to, BDF's investment advisory fee.

**Duty to Obtain Best Execution.** Although the commissions and transaction fees that may be paid by BDF's clients shall comply with BDF's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where BDF determines, 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 any research provided, execution capability, commission rates, and responsiveness. Accordingly, although BDF will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. BDF's best execution responsibility is qualified if securities it purchases for client accounts are no-load mutual funds that trade at net asset value as determined at the daily market close.

In addition to the above-noted factors, BDF considers those below in recommending broker-dealers for client transactions and determining the reasonableness of their compensation.

**Schwab Institutional.** BDF participates in the Schwab Institutional services program (SI), which includes the Schwab Advisor Services division, offered to independent investment advisers by Schwab. As noted above, BDF may recommend that clients establish brokerage accounts with the Schwab Advisor Services division of Schwab to maintain custody of clients' assets and to effect trades for their accounts. Although BDF may recommend that clients establish accounts at Schwab, it is the client's decision to custody assets with Schwab.

Schwab provides BDF with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets are maintained in accounts at Schwab Advisor Services. These services are not contingent upon BDF committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's brokerage

services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

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

Schwab Advisor Services also makes available to BDF other products and services that benefit BDF but may not directly benefit its client's accounts. Many of these products and services may be used to service all or some substantial number of BDF's accounts, including accounts not maintained at Schwab. Schwab's products and services that assist BDF in managing and administering clients' accounts include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of BDF's fees from its clients' accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

Schwab Advisor Services also offers other services intended to help BDF manage and further develop its business enterprise. These services may include: (i) compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers, Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to BDF. Schwab Advisor Services may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to BDF. Schwab Advisor Services may also provide other benefits such as educational events or occasional business entertainment of BDF personnel. In evaluating whether to recommend that clients custody their assets at Schwab, BDF may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest. Participation in the SI program results in a potential conflict of interest for BDF, as the receipt of the above benefits creates an incentive for the Firm to recommend Schwab to clients. Schwab may refer clients to BDF and, in such cases, BDF will recommend Schwab brokerage and custodial services to such clients.

**TD Ameritrade Institutional.** BDF also participates in the TD Ameritrade Institutional program. TD Ameritrade Institutional is a division of TDA, member FINRA/SIPC/NFA. TDA is an independent and unaffiliated SEC-registered broker-dealer and FINRA member. TDA offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. Advisor receives some benefits from TDA through its participation in the program. There is no direct link between BDF's participation in the program and the investment advice it gives to its clients, although BDF receives economic benefits through its participation in the program that are typically not available to TDA retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then

allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to BDF by third party vendors. TDA may also have paid for business consulting and professional services received by BDF's related persons. Some of the products and services made available by TDA through the program may benefit BDF but may not benefit its Client accounts. These products or services may assist BDF in managing and administering Client accounts, including accounts not maintained at TDA. Other services made available by TDA are intended to help BDF manage and further develop its business enterprise. The benefits received by BDF or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TDA. As part of its fiduciary duties to clients, the firm endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by BDF or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the BDF's choice of TDA for custody and brokerage services.

BDF has reviewed the services of Schwab and TDA and recommend their services based on a number of factors. These factors include the professional services offered, commission rates, and the custodial platform provided to clients. BDF's business model is that it will not seek to exercise discretion to negotiate trades among various brokers on behalf of clients, but will periodically attempt to negotiate lower commission rates for its clients with Schwab and TDA.

The following should be noted:

1. **Soft Dollar Benefits.** BDF does not have any formal or informal soft-dollar arrangements and does not receive any soft-dollar benefits, which are research or other products or services (other than execution) from a broker-dealer or third party in connection with client securities transactions.
2. **Brokerage for Client Referrals.** If BDF receives a referral from a broker-dealer, it will recommend the client utilize the brokerage and custodial services of the referring broker-dealer. In the event that transactions for a client's accounts are effected through a broker-dealer that refers investment management clients to BDF, there exists the potential for conflict of interest if the accounts incur higher commission or transaction costs than the accounts would otherwise have incurred had the client determined to effect account transactions through another broker-dealer or alternative clearing arrangements that may have been available through BDF. BDF has no incentive, practice or procedure to direct client transactions to a particular broker-dealer in order to receive client referrals from such broker-dealer. In the past year, for clients referred to it by Schwab or TDA, BDF's procedure has been to direct such clients to the referring custodian for brokerage and custodial services.
3. **Directed Brokerage.** BDF recommends that clients primarily use the brokerage and custodial services of Schwab or TDA (both are unaffiliated and independent firms) for their securities transactions. Such recommendations are based on the Firm's evaluation of Schwab and TDA and belief that Schwab and TDA will provide BDF clients with a blend of quality execution services, commission costs and professionalism. While the Firm has a reasonable belief that Schwab and TDA are able to provide best execution and competitive prices, BDF

will not be independently seeking best execution price capability through other broker-dealers, except in trades involving fixed-income securities. Clients may request the brokerage transactions be directed to any particular broker-dealer. However, BDF reserves the right to decline acceptance of any account that directs the use of a broker-dealer other than Schwab or TDA, if the Firm believes that this would adversely affect BDF's duty to obtain best execution. Where BDF accepts a Client's request that brokerage transactions be directed to any particular broker-dealer, BDF advises Client that such arrangement may adversely affect BDF's duty to obtain best execution, including but not limited to the fact that the Client may forego any benefit from savings on execution costs the Firm could obtain for its non-directing clients through, for example, negotiating volume commission discounts on aggregated orders. In addition, where a Client directs BDF to use a particular custodian broker-dealer, such custodian may not permit BDF to buy every security BDF desires to purchase for client portfolios from time-to-time.

BDF does not have the discretionary authority to direct the broker to be used or commissions to be paid. When undertaking an advisory relationship, some clients already have a pre-established relationship with a broker and they will instruct BDF to execute all transactions through that broker. BDF will recommend a broker-dealer custodian to clients in need of brokerage and/or custodial services, provided that such recommendations are consistent with BDF's fiduciary obligations to its clients. In directing the use of a broker-dealer, clients should recognize that BDF may not be authorized to negotiate commissions, obtain volume discounts and best execution may not be achieved. In addition, under these circumstances a disparity in commission charges may exist among clients.

4. **Prime Brokerage.** When beneficial to the client, account transactions may be effected through broker-dealers with whom BDF has entered into arrangements for prime brokerage clearing services pursuant to the terms and conditions of a Prime Brokerage agreement between the account custodian and the client. When beneficial to the client, individual fixed income transactions may be effected through broker-dealers with whom BDF or the client have entered into arrangements for prime brokerage clearing services in which event, the client shall incur both the transaction fee charged by the executing broker-dealer and a "tradeaway" fee charged by the account custodian such as Schwab or TDA. In general, "tradeaway" is where a security trade is placed at another broker/dealer and it settles at the client's current custodian.

## **B. Aggregation of the Purchase and Sale of Securities**

**Block/Directed Trades.** In the event that the client directs BDF to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the directed accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through broker-dealers that BDF generally recommends for its clients. BDF generally does not (and is not obligated to) "batch" or "combine" client trades. However, should it determine to do in order to attempt to obtain better execution, transactions will be averaged as to price and will be allocated among BDF's clients in proportion to the purchase and sale orders placed for each client account on any given day. In the event the client directs BDF to use a specific broker-dealer (other than those that BDF generally recommends for its clients), BDF will not be able to "batch" the client's transactions for execution through such directed broker-dealers with orders for other accounts managed by BDF. As a result, client may pay higher



commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. To the extent that BDF determines to include the trades for its related persons with those of its clients in any batch transaction, BDF shall generally do so in accordance with the parameters set forth in SEC No-Action Letter, SMC Capital, Inc., as set forth in BDF's Policies and Procedures."

**Financial Planning-Only Engagements.** Due to the nature of financial planning, BDF does not block trade, negotiate commissions with broker-dealers or obtain volume discounts nor necessarily obtain the best price for financial planning clients. Financial planning clients will be required to select their own broker-dealers and insurance companies for the implementation of financial planning recommendations. BDF may recommend any of several brokers, including Schwab or TDA. BDF clients must independently evaluate these brokers before opening an account. The factors considered by BDF when making this recommendation are the broker's ability to provide professional services, BDF's experience with the broker, the broker's reputation, and the broker's reported financial strength, among other factors. As stated above, BDF's recommendation of Schwab and TDA is based upon BDF's evaluation and belief that Schwab and TDA will provide BDF clients with a blend of quality execution services, low commission costs and professionalism. BDF's financial planning clients may use any broker-dealer of their choice.

### **Item 13 – Review of Accounts**

For those clients to whom BDF provides investment supervisory services, account reviews are conducted on an ongoing basis by the Firm's Principals and/or its Investment Adviser Representatives (IAR) as the case may be for each client. Account reviews are performed at least quarterly for all clients. More frequent reviews may be triggered by changes the client makes BDF aware of concerning the client's personal, tax or financial status. The nature of BDF's review is to determine if rebalancing or reallocating of client accounts is appropriate to: 1.) maintain or adjust the recommended asset allocation for the client; or 2.) implement any investment portfolio changes recommended by BDF.

All clients are advised that it remains their responsibility to advise BDF of any changes in their investment objectives or financial situation. All clients (in person or by telephone) are encouraged to review financial planning issues, investment objectives and account performance with the Firm on a regular basis. The following persons are responsible for conducting client reviews:

Mark Balasa, Principal, Co-CEO	Nicholas Cosky, Senior Advisor	Matt Reznik, Wealth Manager
Armond Dinverno, Principal, Co-CEO	Nicholas Dalgety, Wealth Manager	Phil Ridolphi, Advisor
Michael Foltz, Principal, V.P., CCO	Anthony Dinverno, Senior Planner	Casey Shaw, Planner
Heather Locus, Principal	Mark Fleming, Senior Planner	John Smith, Wealth Manager
Jim King, Principal	Matthew Haas, Planner	Neil Teubel, Senior Planner
Matt Mikula, Principal	Jen Lake, Senior Advisor	
Julie Bucaro, Wealth Manager	Chuck Neff, Wealth Manager	
Chad Carlson, Wealth Manager	Gary Pattengale, Wealth Manager	
Tom Collar, Senior Advisor	Justin Peacock, Wealth Manager	

Clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer/custodian for the client's accounts. Those clients to whom BDF

provides investment supervisory services will also receive a quarterly report from the Firm summarizing account activity and performance.

#### **Item 14 – Client Referrals and Other Compensation**

**No Additional Compensation.** Other than that already described in this Brochure, BDF does not receive any additional compensation from third parties for providing investment advice or advisory services to its clients. Please note: At the request of BDF, Schwab made a contribution of \$2,500 to the Make-a-Wish Foundation on or about May 1, 2011.

**Referral Fees Paid by BDF.** If a client is introduced to BDF by either an unaffiliated or an affiliated solicitor, BDF may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from BDF's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to BDF by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of his/her/its solicitor relationship, and shall provide each prospective client with a copy of BDF's written Firm Brochure as presented in this ADV Form, Part 2, together with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between BDF and the solicitor, including the compensation to be received by the solicitor from BDF.

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

BDF pays Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by BDF is a percentage of the fees the client owes to BDF or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. BDF pays Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to BDF quarterly and may increase, decrease or be waived by Schwab from time to time. The Participation Fee is paid by BDF and not by the client. BDF has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs BDF charges clients with similar portfolios who were not referred through the Service.

BDF generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from Schwab. This Fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees Advisor generally would pay in a single year. Thus, BDF will have an incentive to recommend that client accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of BDF's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, BDF will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit BDF's fees directly from the accounts.

For accounts of BDF's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from BDF's clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Thus, BDF may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. BDF nevertheless, acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for BDF's other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

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

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

## **Item 15 – Custody**

Investment advisory clients of BDF will receive, at least quarterly, account statements from the broker-dealer or custodian. BDF urges all of its clients to carefully review those account statements. In addition, clients will receive quarterly account statements from BDF. Clients are strongly urged to compare the account statements received from the qualified custodian with those received from BDF.

## **Item 16 – Investment Discretion**

BDF provides investment management services on a discretionary basis to individuals, trusts, estates, pension and profit sharing plans, charitable organization, and corporations. For discretionary clients that BDF determines which (and the amount of) securities to be bought or sold, the client shall provide BDF with written authority to do so in the form of a signed Investment Management Agreement or similar-titled document.

**Limitations on BDF's Authority.** Any limitations on BDF's discretionary authority shall be included in the investment management agreement mentioned above or investment policy statement signed by the client. Clients may change or impose any limitations by providing BDF with a written, signed and dated statement detailing such changes.

## **Item 17 – Voting Client Securities**

Unless a client directs otherwise in writing, BDF, in conjunction with the proxy voting and due diligence services provided by Broadridge Financial Solutions, Inc., or its successors or assigns, shall be responsible for directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted. BDF and/or the client shall correspondingly instruct each custodian of the assets to forward to BDF copies of all proxies and shareholder communications relating to the assets. BDF, in conjunction with the services provided by Broadridge Financial Solutions, Inc., shall monitor corporate actions of individual issuers and investment companies consistent with BDF's fiduciary duty to vote proxies in the best interests of its clients. With respect to individual issuers, BDF may be solicited to vote on matters including corporate governance, adoption or amendments to compensation plans (including stock options), and matters involving social issues and corporate responsibility. With respect to investment companies (e.g., mutual funds), BDF may be solicited to vote on matters including the approval of advisory contracts, distribution plans, and mergers. BDF shall maintain records pertaining to proxy voting as required pursuant to Rule 204-2 (c)(2) under the Advisers Act. Copies of Rules 206 (4)-6 and 204-2(c)(2) are available upon written request. In addition, information pertaining to how BDF voted on any specific proxy issue is also available upon written request.

Alternatively, clients may, at their written election, choose to receive proxies related to their own accounts, in which case BDF may consult with clients as they may request. With respect to ERISA accounts, BDF will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies. To direct BDF to vote a proxy in a particular manner, clients should contact Michael Foltz by telephone, electronic mail, or in writing.

BDF will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by BDF that was material to making a decision how to vote proxies, and a copy of each written client request for information on how the adviser voted proxies. If BDF has a conflict of interest in voting a particular action, it will notify the client of the conflict and retain an independent third-party to cast a vote.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting Michael Foltz directly. Clients may request, in writing, information on how proxies for his or her shares were voted. If any client requests a copy of the Firm's complete proxy policies and procedures or how it voted proxies for his or her accounts, BDF will promptly provide such information to the client.

BDF will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's accounts, including, but not limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, BDF will make commercially reasonable efforts to forward such notices in a timely manner.

#### **Item 18 – Financial Information**

**Prepayment of Fees.** BDF does not require prepayment of fees more than three months in advance of services rendered. If a client terminates BDF during a quarter, any unearned fees are refunded to the client.

To the best of BDF's knowledge, no financial condition exists that is reasonable likely to impair the Firm's ability to meet its contractual commitments to clients.

#### **Item 19 – Requirements for State-Registered Advisors** (not applicable, BDF is SEC-registered)