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This brochure provides information about the qualifications and business practices of Financial Security Advisors. If you have any questions about the contents of this brochure, please contact us at 913-385-5523. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Financial Security Advisors also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Financial Security Advisors is a registered investment adviser. This does not imply a certain level of skill or training.

The following information is provided to the securities and exchange commissions in Form-ADV, the registration for investment advisors. We file this with either the federal SEC, or the required state securities commissions, based on what the law requires. This information must be provided to all new clients, and offered to all existing clients annually. Please feel free to request a current copy of this information at any time.

## Summary of Material Changes for 2012

- No material changes from 2011

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## **Advisory Business**

Financial Security Advisors (FSA) has been in business since 1993. FSA provides financial planning advice to its clients. Investment management services are a part of our service. The services are described below. Principal owner is Sandra Weaver. FSA is registered under the corporation, Video Records, Inc. All business is conducted under the name Financial Security Advisors (FSA).

FSA provides financial planning services on retirement planning, tax strategies, estate planning, utilizing employee benefits, risk management and insurance, and investment planning and management. This service uses data requests and interviews with the client to determine the client's personal financial goals and their financial position.

We review financial documents, such as tax returns, W-2s, and financial account statements. We produce written financial reports and review those with the client. Standard planning techniques such as cash flow analysis, income tax planning, retirement savings, use of an emergency savings fund, building college funds, and estate planning considerations, are recommended as appropriate.

The above-described financial planning service includes investment planning as a component. Similar steps are followed: interviewing in initial consultations, engagement letter and written outline to confirm the tasks, financial document reviews, and written investment plan reports. Client's financial needs and current financial position are assessed during multiple consultations.

We use questionnaires to assess a client's investment attitudes and experience. Standard investment planning techniques for investments are used including asset allocation over different investment types, balanced portfolios, risk assessment for the client, risk assessment of their current investments, a client's need for liquidity, time horizon definition, and using diversification. We use graphs and handouts to communicate the importance of asset allocation, investment risks, realistic returns, and diversification.

We use an investment management agreement to lay out client and FSA responsibilities and the fee arrangements. Both the client and FSA may terminate the investment management agreement upon 30 days written notice. A written investment plan and investor profile is developed, reviewed, perhaps revised, and signed by the client for approval.

Actual investments are primarily in a diversified portfolio of carefully selected mutual funds. We use mostly "no-load" mutual funds, ETFs, and bonds, primarily U.S. government and municipal bonds.

FSA does not have actual custody of any client assets. Clients place their assets with an independent third party, such as a discount brokerage like Charles Schwab & Co, Inc. Clients' assets inside variable annuities, variable universal life products, or pension accounts, such as 401(k) accounts, may be included in the investment plan and directed by FSA.

Clients who prefer to retain certain stock holdings, i.e. a client-imposed restriction, are responsible for monitoring those investments although FSA executes those trades at the client's direction.

Clients grant FSA limited discretionary authority over the portfolio in the investment management agreement and when establishing their account with the independent third party. FSA does not have any right to withdraw funds, except for the payment of fees. FSA's discretionary authority is subject to certain limitations, which are

designed to facilitate understanding between FSA and the client. For example, placing the client's funds in a new investment (for the client's portfolio) requires specific advance approval – usually written - by the client. Once investments are established, FSA is authorized to transfer funds between investments for proper balancing of the portfolio to manage risk levels, with client – verbal - approval of those trades

FSA manages \$60,989,000 in discretionary client investments as of 12/31/11.

### **Fees and Compensation**

FSA does not collect revenues from any other sources, only its clients.

FSA does not accept compensation for the sale of securities or other investment products.

FSA does not accept compensation from the sale of mutual funds.

FSA does not accept compensation for recommendations of any type of insurance product.

FSA does not accept compensation for referrals to any other professionals for services they are recommending that the client needs.

The fee for financial planning and investment management service is levied quarterly, in arrears. It is calculated as a percentage of the client's portfolio, i.e. assets under management.

Fees are paid either from the investment portfolios or directly by the client, whichever they choose.

Fees are based on the following schedule:

Minimum Fee	\$1,250/quarter
Fee Calculation	
Per year	1.00% of the first \$1 million .25% of the next \$2 million
Billed at the end of the quarter, in arrears	.10% of the remainder

Fees are calculated based on the market value of the assets in the portfolio. The value of the portfolio is determined on the last business day of the calendar quarter. Fees are prorated for services during a portion of the quarter, if a new client starts up, or an existing client terminates.

Because each client's financial position is unique, FSA recognizes that in some circumstances a higher or lower fee might be an appropriate deviation from the standard schedule. Any deviation is negotiated and agreed to in advance by both the client and FSA, and documented in the written investment management agreement. Different minimum fees may apply to clients who hired us in earlier years when our minimum fee was lower or higher. Eligible employees can decide to be clients and are not charged. Retired employees may be given a discount.

For new clients, FSA charges an initial set-up fee. The amount of the fee will vary depending on the complexity of the client's financial situation but usually ranges from \$2,000 to \$3,000. Setup fees have been below that, and above that.

Clients also pay other expenses.

- Transaction fees or commissions charged by the third party financial institution are reviewed with the client to ensure understanding. For example, although a “no-load” mutual fund does not charge a “load” commission, the financial institution may or may not charge a transaction fee to buy or sell that fund. We negotiate that transaction fee, periodically and/or when we think we have some leverage, with Charles Schwab, and attempt to get the best deal we can based on our firm size.
- Transaction fees are normally charged by the financial institution when government bonds are purchased.
- Operating expenses charged by the mutual funds are reviewed with the client and documented in both the investment plan and investment management agreement. Operating expenses charged by mutual funds can vary from .5 of 1% or lower, to 2% or higher. The class of mutual fund used affects the operating expense clients pay. FSA tries to use the class which is most advantageous to the client. Other factors are taken into account, such as applicable transaction fee, size of the trade (buy/sell), and the client’s situation. We try to use institutional classes of the mutual funds whenever possible since they usually have cheaper operating expenses.
- If a client already owns a non-standard asset, such as units in a limited partnership, and transfers that into an account at Charles Schwab, Schwab may charge a non-standard asset fee annually. Those assets are usually sold within the first year, unless the client directs otherwise.
- If an existing client directs FSA to perform work on areas outside of the scope of our normal services, and if FSA agrees to do that work, an estimate of the cost is provided to the client, and upon the existing client’s approval, the work is performed and the client is billed. For example, an existing client may direct us to review and give an opinion on an outside trustee’s proposal on a real estate investment. We estimate the hours it takes to do that, and if the client approves, that analysis is done and a separate bill for the hours times the hourly rate in affect at the time, is received and paid by the client.
- Clients have the option to purchase investment products that we recommend through other brokers or agents that are not affiliated with FSA. For example, a client can have their brokerage accounts custodied at a third-party financial institution other than the one where FSA has negotiated a favorable fee schedule. So, for example, rather than executing trades and holding investments at Charles Schwab & Co., Inc., the client could direct FSA to use Fidelity Investments.
- Commissions do not provide more than 50% of our revenue from clients. (FSA is fee-only and does not accept commissions at all.)
- FSA does not charge advisory fees in addition to commissions or markups, and then reduce advisory fees to offset commissions. (Again, FSA is fee-only and does not accept commissions.)
- See also Brokerage Practices section.

### **Performance Fees and Side-by-Side Management**

FSA does not accept performance-based fees.

FSA does not manage both accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as an hourly or flat fee or an asset-based fee.

## **Types of Clients**

FSA provides services primarily to individuals, trusts, and corporations.

Although FSA does not require a minimum dollar value of assets as a condition for starting an account (becoming a client), FSA does impose a minimum fee, regardless of the client's assets. The minimum fee may not be practical for clients with small investment portfolios; however, it is the client's decision whether to hire FSA or not. See the Fees and Compensation section.

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

FSA advises investment planning and management on a fundamental basis with a long-term approach, emphasizing asset allocation, a well-defined investment plan, and risk diversification. These three tenets form the foundation of FSA's professional management.

Asset allocation involves the allocation of investments by major asset class, such as stocks (via mutual funds and ETFs), bonds (via both individual bonds and mutual funds), commodities (via sector mutual funds), real estate (via sector mutual funds), non-traditional investments such as currencies (via mutual funds), and cash (via both money market funds and mutual funds).

By properly diversifying investments into major asset classes, the interdependence of investment performance will hopefully result in lower portfolio volatility without impairing long-term returns <sup>2/28/12</sup>.

Bear in mind that even asset allocation cannot guarantee the portfolio will not have a loss <sup>5/11/11</sup> for the client. If all, or most of, the different types of investments are losing money in a bear market, the overall portfolio will incur a net loss. Even if only 2-3 asset segments incur a loss, and if those losses are substantial enough, the overall portfolio will incur a net loss for the client.

A well-defined investment plan focuses on the client's needs and financial position. Liquidity needs, investment time horizon, return expectations and needs, risk tolerance, and factors specific to the client are explored to define the investor's profile. These drive the asset allocation and risk diversification.

Risk is lowered through diversification in the client's portfolio. Obviously, asset allocation attributes to decreased risk on two fronts: (1) by diversifying among the major asset classes, and (2) by shifting investments into lower-risk investments from higher-risk investments.

Risk is inherently a part of investing. Clients should be prepared to incur losses when investing. Although the above approach has long been used by professionals, it is not guaranteed to avoid a loss by any means. Past performance of an investment is not a guarantee of future performance.

We evaluate mutual funds, most of which are well diversified. Investments are recommended to further

diversify among investment style (growth versus value) and market capitalization (large versus small companies). Fixed income (bond) investments may be diversified among government/municipal bonds, foreign bond mutual funds, and corporate bonds and funds. Not all mutual funds are diversified. For example, a real estate fund is not, but is used to invest in that asset class.

Some mutual funds have investments which are less risky than others. For example, a mutual fund of government bonds is normally less risky than a mutual fund of commodity securities.

The main sources of information we use include financial newspapers and magazines, research materials prepared by other organizations/individuals, corporate rating services, and annual reports and prospectuses. Some of these research materials are purchased by FSA; some are not. The investment strategies used include long-term purchases (securities held at least a year) and short-term purchases (securities sold within a year). Some strategies inside mutual funds involve short sales (a bet the investment's price will fall to allow a later purchase at lower prices, after it was sold initially). Some strategies may involve margin transactions where an investment is purchased on margin, or via a loan from a third-party custodian such as Charles Schwab & Co, rather than paying cash; this is rare for us and occurs at a client's direction, not ours.

Although these various sources of information are used, there is still the risk that an investment will be used which fails to perform as expected based on what the research projects. And, although lawsuits against mutual funds by shareholders may be won after-the-fact, the restitution from those lawsuits rarely, if ever, restore all losses back to the clients.

The types of investments upon which we give advice are: equity securities (stocks) (exchange-listed securities, securities traded over-the-counter, and foreign issuers), warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities of variable annuities, variable life insurance, ETFs, mutual fund shares, U.S. government securities, real estate, commodities, currencies via sector mutual funds. We may not use all of these in the investment portfolios, but clients may own them and ask us to review those. For example, a client may have warrants and ask our advice on whether to keep those or not.

### **Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of FSA's business or the integrity of FSA's management.

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

FSA is not registered as a broker-dealer, or a registered representative of a broker-dealer. Neither FSA nor any of its management personnel are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

Neither FSA nor any of its management personnel have any relationship or arrangement that is material to our advisory business or to our clients that FSA or any of our management personnel have with any related person listed below.

1. Broker-dealer, municipal securities dealer, or government securities dealer or broker
2. Investment company or other pooled investment vehicle
3. Other investment adviser or financial planner
4. Futures commission merchant, commodity pool operator, or commodity trading advisor
5. Banking or thrift institution
6. Accountant or accounting firm
7. Lawyer or law firm
8. Insurance company or agency
9. Pension consultant
10. Real estate broker or dealer
11. Sponsor or syndicator of limited partnerships

FSA does not recommend or select other investment advisers for our clients where we receive compensation directly or indirectly from any other investment advisers, so no material conflict of interest exists. FSA does not have any other business relationships with other investment advisers where we recommend clients use their services where any material conflict of interest would exist.

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

FSA uses a Code of Ethics which:

- (1) defines our relationships and obligations with our clients to be that of a fiduciary,
- (2) prohibits insider trading,
- (3) requires compliance with Federal securities laws,
- (4) require all personnel to report personal securities transactions and holdings for review by our compliance supervisor Sandi Weaver,
- (5) requires pre-clearance of personal employee purchases of initial public offerings or limited offerings,
- (6) requires reporting of any known violations of our ethics code, insider trading policy, or Compliance Manual, and
- (7) provides for any client impacted by any violation to be contacted for resolution.

Our Code of Ethics is available upon request and free of charge.

FSA or any related person does not recommend to clients, and does not buy or sell for clients, securities in which FSA or a related person has a material financial interest.

FSA does not purchase or sell investments for its own accounts other than to maintain cash accounts necessary for business operations. These accounts are generally checking or money market-type accounts, which may be similar to those accounts acquired by FSA's clients. No compensation of any kind is paid to FSA with regard to maintaining these accounts, except such interest as is credited by the financial institution.

The employees of FSA, as a related person, may buy and sell investments for themselves or related family



members that FSA recommends to clients.

- Since FSA uses primarily mutual funds, and since the amount of money to impact a mutual fund is significant, the compliance officer deems that the amount of money required to impact a mutual fund's operations is likely far beyond the wherewithal (net worth) of the firm, any of its personnel, and its personnel's related persons.
- All transactions in investments which could conceivably be impacted are completed for clients first and for personal interests last, as mandated by the code of professional conduct for Chartered Financial Analysts (CFA), and are governed by a discretionary measure of fairness to the client as determined by FSA.

### **Brokerage Practices**

FSA has limited discretionary authority to determine the securities and amount to be bought or sold. These decisions are based on the careful evaluation and selection process of the investments, the investment profile of the client (risk levels, time horizon, etc.), and asset allocation for the client. When an investment vehicle is used for the first time in a client's portfolio, the investment is reviewed with the client and FSA receives the client's written approval before the trade is executed.

FSA does not determine, without specific client consent or direction, the broker or dealer to be used or the brokerage commission rates paid. However, FSA does suggest that a brokerage account be setup where FSA has negotiated a favorable fee schedule on transaction fees, and where FSA can aggregate accounts in order to qualify to use an institutional class for specific mutual funds. Those institutional classes usually benefit the client because they have lower operating expenses, or have waived the load which normal retail investors are paying.

It is extremely important to us that we be able to have a wide selection of mutual funds to use, across a wide selection of fund families. We need to manage client accounts at a broker that does not restrict us to a single, or small set of, fund families. There are several brokerages that offer that setup. Schwab and Co. allows that.

Other factors, beyond transaction fees and loads/commissions, are important to FSA when suggesting a broker. These include the variety of investments offered, the timeliness and accuracy of information, the support of ancillary departments available to us such as their retirement department, estate planning department, etc.

FSA places security trades with a third party independent financial institution determined by the client. FSA does suggest the use of a national discount broker Charles Schwab and Co, Inc. to the client to retain custody of the client's assets for the reasons stated above.

On occasion, we may recommend using sub-advisors, and will do so only with client approval.

No cash compensation is received by FSA from the discount broker. Some non-cash benefits, such as software and newsletters, are provided. By using Charles Schwab & Co., as the third party independent financial institution, FSA does get a discount if/when we buy research from Morningstar; we do so. Charles Schwab does have breakfasts with a speaker, where CE is offered. Coffee and bagels are usually available and free. FSA does attend some of those if the topic is relevant, and if we have the time.

We also get bond credit research from Schwab on specific investments held by some clients. It is not Schwab's proprietary research. We use that in determining whether to recommend keeping or selling that security. We could get that same research if we recommended another national broker to custody client accounts.

We get stock research from Schwab on specific investments held by some clients. Some, not all, of that research is Schwab's proprietary research. We use the research to assist us in following that stock, whether to keep it or recommend selling it. Stock research is widely available from several sources. We could get that same or similar research if we recommended another national broker to custody client accounts. Schwab's proprietary research is not of high importance to us since other sources are equally suitable for our purposes.

However, since most client accounts are custodied at Schwab, we have easy access to a great deal of research, some of which we use. If we did not have that easy access, we would turn to other, publicly-available, free sources of research.

We use this research regardless of where the clients' accounts are, whether they're at Schwab or elsewhere.

It is possible that we may have an incentive to select or recommend a broker-dealer based on our interest in receiving the research or other products or services, rather than on our clients' interest in receiving most favorable execution.

FSA does receive the use of software, without charge, from Schwab and Co. to download investment data on our clients' accounts from their computers into our system. Many other national discount brokers do the same when client accounts are custodied there.

FSA periodically evaluates transaction fees and commissions charged by other national discount brokers to ensure that charges are reasonable. Investment conferences in our industry often have exhibit booths where these other brokers are available. We avail ourselves of the opportunity to review what Schwab's competition is offering, and other alternatives surfacing in the marketplace.

FSA's investment strategy uses primarily no-load mutual funds, which involve no/minimal commissions levied by the funds themselves.

FSA may recommend that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co. Inc. (Schwab), a FINRA registered broker-dealer, member SIPC, to maintain custody of client's assets and to effect trades for their accounts. Although FSA may recommend that clients establish accounts at Schwab, it is the client's decision to custody assets with Schwab. FSA is independently owned and operated and not affiliated with Schwab. Schwab provides FSA with access to its institutional trading and custody services, which are typically not available to 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 is maintained in accounts at Schwab Institutional and is not otherwise contingent upon Advisor committing to Schwab any specific amount of business (assets in custody or trading). Schwab's services include brokerage, custody, research and access to mutual funds and other investments that are otherwise generally available to institutional investors or would require a significantly higher minimum initial investment.

For FSA's clients' accounts maintained in its custody, Schwab generally does not charge separately for custody

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 also makes available to FSA other products and services that benefit FSA but may not directly benefit its clients' accounts. Many of these products and services assist FSA in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of FSA's fees from its clients' accounts; and assist with back-office functions, recordkeeping and client reporting.

Many of these services generally may be used to service all or a substantial number of FSA's accounts, including accounts not maintained at Schwab Institutional. Schwab Institutional also makes available to FSA other services intended to help FSA manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing.

FSA does use Schwab's practice management information, and their advisory firm survey data. We usually participate in the firm questionnaire, and then have access to the results. This is used annually to evaluate ourselves, in terms of management practices (compensation, technology used inhouse, marketing methods used), and the services we offer to clients (are we offering more/less than our competitors?) and the prices at which we offer those services (do our competitors charge more/less for the same slate of services?).

In addition, Schwab may make available, arrange and/or pay for these types of services rendered to FSA by independent third parties. Schwab Institutional may discount or waive fees it would otherwise charge for some of these services or pay all or part of the fees of third party providing these services to FSA.

Schwab also provides breakfast seminars that may result in free CE (continuing education) credits for FSA employees' various designations. While as fiduciary, FSA endeavors to act in its clients' best interests and FSA's recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefit to FSA of the availability of some the foregoing products and services and not solely on the nature, cost or quality and brokerage services provided by Schwab, which create a potential conflict of interest.

We do not direct transactions to one broker vs. another. Wherever the client sets up the account determines that. The client has a choice in where they want us to manage their investments. However, we're able to negotiate fees better by concentrating accounts at one broker firm.

We do not get client referrals from any brokerage firm, including Charles Schwab & Co. Some brokers do have programs where they direct client referrals to advisers, usually for a fee; we do not participate in those.

Nor, then, do we direct client transactions to a particular broker-dealer in return for client referrals.

### **Directed Brokerage**

We do not routinely recommend, request or require that a client direct us to execute transactions through a

specified broker-dealer so we have no practice or policy governing such matters.

We do permit a client to direct brokerage. If they do not choose to hold an account at Charles Schwab & Co., Inc., we can still manage the account where they direct us, but we will likely not be able to get as favorable execution. Suggesting that most clients use Charles Schwab & Co. to setup accounts gives us some advantages. For example,

- we're able to negotiate transaction fees better by concentrating accounts at one broker firm.
- we're able to aggregate other clients' investments and qualify for institutional classes on mutual funds, which are usually cheaper in terms of operating expenses.

We could suggest Fidelity or TD Ameritrade, rather than Charles Schwab & Co., and likely achieve the same benefits.

We do not aggregate client orders. For the most part, we do not even do block trades. Each client's portfolio is reviewed individually. There are infrequent times when we will do a block trade across all clients across all accounts. That's usually to move from one class of a specific mutual fund to a more favorable class of the same fund, and avoid a taxable event. For example, a mutual fund we're using may have decided to offer an institutional class with cheaper fees, where it wasn't available before. If we qualify, i.e. have enough invested in that fund across all clients, we'll move all client accounts into the new institutional class to get the cheaper fees. We do not, however, want to pay taxes on any capital gains. Some funds are structured so it is not deemed a sale and a buy, which triggers a tax event on the capital gains, but instead it's a class exchange. No transaction fees are levied on those types of block trades either. That's an example of a block trade across all client accounts which we've done. I do not believe we've incurred costs, at least on mutual fund trades, by not aggregating client orders.

## **Review of Accounts**

We reconcile clients' accounts to the statements of the independent third party financial institutions on a daily, monthly, or quarterly basis depending on when the institution's reports are available.

We review a client's portfolio individually on a quarterly or semi-annual basis, comparing it to that client's planned asset allocation, diversification, and balancing strategies. Clients' portfolios are reviewed upon the occurrence of any unusual economic or other similar event. A client's portfolio is reviewed when something specific occurs, such as a pension plan rollover or the client needs to withdraw a large sum. These reviews include checking:

- If there are sufficient cash equivalents held based on the client's upcoming withdrawals,
- Has a specific investment grown larger (over the target allocation) and should we decrease that holding?
- Has a specific investment depreciated so much that we should buy more?
- Can we place some investments in the client's tax-deferred account to save money on taxes?
- Can we shift other investments into the client's taxable account which would throw off less taxes?
- What's the client's tax position on capital gains/losses at this point in time? Do we have any capital loss carryforwards on their tax return to net any capital gains we want to take now? What is the impact of the trades we're recommending to the client?
- Are we increasing the allocation in a specific asset segment for this client? If so, do we need to add more to some holdings in that section?

- Likewise, are we cutting the allocation in a specific asset segment?
- Are we changing from using a specific mutual fund to another one we feel is better? If so we recommend a sale of the under-performing fund and a purchase of the newer fund.
- Can we recommend the client do a contribution to an IRA or Roth? Will they transfer from their taxable account in the portfolio to their IRA or Roth, or will they deposit a check?
- If the IRA or Roth contribution is in that account, we recommend investing it in a specific mutual fund, so we plot out the trade and ask the client for approval.
- And more.

We hold formal review meetings, usually 2 per year, regarding the investor profile (risk tolerance, etc.), asset allocation, and investment portfolio, with most clients. (We do not hold review meetings on older, small-dollar portfolios.) The frequency of these reviews varies by client. Half of these reviews are by phone or video conferencing <sup>2/28/12</sup>; half are in the office (or held remote via phone or computer <sup>2/28/12</sup> at client's request). We prepare reports for these meetings ahead of time. These reports may include all holdings across all accounts, inside each account, cash moving between a client's accounts, taxable income, expenses paid to Schwab, expenses paid to us, expenses paid to other third-party financial institutions that we know of, realized gains/losses in accounts where applicable, performance (rate of return) on the portfolio and on the markets, asset allocation, portfolio balancing reports, performance by mutual fund compared to category, operating expenses paid by mutual funds used compared to category.

We carefully evaluate and select mutual funds. We use Morningstar research, as well as information from several other publicly-available sources. We review performance across portfolios, and external research monthly. External research and evaluation software from various firms is used.

We normally review a client's individual performance on their portfolio six times per year, looking for anomalies and yellow flags.

Resulting decisions are implemented in the clients' portfolios once the client has given approval for the go-ahead.

Sandi Weaver, president, and Jim Stoutenborough, financial planner, review the portfolios.

We review portfolios on a cyclical basis, normally at the first of the month. Portfolios are not assigned to individual advisors. We use a team approach. One financial planner, either Jim Stoutenborough or Sandi Weaver, will "work-up" the portfolio and the other planner will then review the thoughts, recommendations, and calculations used. We usually review a client's portfolio 2-4 times each year.

We review portfolios in accordance with "Procedures-month-end – Portfolio Check", which defines all of the steps and criteria we're checking. On rare occasion a portfolio may be worked-up by just one financial planner due to time constraints from a client for an investment decision.

We provide regular reports to clients on their portfolios as of the end of each quarter, or six month period if they request that, within 30 days, usually 15. Portfolio reports communicate their current asset allocation, specific investments, and market values. These reports list all holdings combined across all of the client's accounts, and well as a summary of how much is in cash, bonds, stocks, non-traditional investments. These reports also show performance, or (time-weighted) rate of return.

We provide reports for tax purposes on interest, dividends, capital gains, fees paid to us that are deductible, fees paid to third-party institutions – that we know of – that are deductible, wash sales, contributions to IRAs/Roths that may qualify for the savers credit, non-deductible IRA contributions so that form 8606 can be filed to document cost basis, etc. at year-end to facilitate their tax planning. Those tax packets (of reports) are intended to go to their CPAs/tax preparers.

All reports are either produced from portfolio software, or Excel, or written (typed) in another computer software application. Many reports have our handwritten notes on them, usually to make sure we don't forget to discuss a point during their meetings, or to clarify the bottom line for clients. The reports for in-office meetings are obviously on paper. Reports for clients not in Kansas City (that's a high percentage for us) are usually viewed on the computer in pdf (or some other appropriate) format. A few clients do not use computers so we mail the paper reports ahead of time for their meetings if they're not coming into the office.

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

FSA does not have any arrangements, oral or in writing, where it receives cash by a non-client in connection with giving advice to clients. FSA does not receive any other economic benefit, (including commissions, equipment or non-research services) from a non-client in connection with giving advice to clients.

FSA has given some clients a nominal thank-you gift in some years. Our annual client gifts have in the past included: a super stapler, leather file holder, personalized memo notes, shredder, a nominal gift card, etc. These are sent based on clients' portfolio size so older (length of time with us), smaller client portfolios do not receive these. We ask clients for referrals once a year in one of their meetings.

FSA has given food to professional contacts for marketing purposes, to stay in touch.

FSA has mailed nominal gift cards and thank-you letters to clients for mentioning our services to others. FSA has mailed thank-you letters to professional contacts for mentioning our services to others.

FSA has held an annual client appreciation reception in our offices for marketing purposes with terrific food, coffee, tea, great desserts, in some years; both clients and professional contacts are invited.

FSA pays an annual fee to the Financial Planning Association and to the National Association of Personal Financial Advisors to provide links from their consumer web sites to FSA's web site. So consumers looking for a financial planner, if they're interested in us, can more easily link over to our website.

### **Custody**

We do not have custody of client funds or securities. However, clients do have their accounts at a third-party financial institution. They get account statements from those institutions, usually monthly or quarterly. They also get account statements from FSA.

Our statements should always tie back to the financial institution's statements, except for minor adjustments. For example, our quarter-end statements will not have the 2-3 interest payments from some of the bond mutual funds. Those are back-dated at the financial institutions, then posted. So, for example, our reports will include \$50 of interest income while the financial institution's statement does not show that. It's a cut-off, or timing, issue and usually minor. Our accompanying quarterly letter includes a statement to that effect to remind clients that's the reason they may not be exactly the same, but the totals should be close. Clients can check the transaction history at the financial institution and see those entries, coming in the first 2-3 days of the next month, which account for the difference.

Clients should always compare the statements they get from us to those from their financial institutions. We certainly do! ☺

### **Investment Discretion**

Clients appoint FSA as their agent with limited power and authority to supervise and direct the investment of the portfolio, and to buy, sell and trade in securities or assets held in their investment accounts. This authorization extends to all assets in the portfolio. Specific stock and bond holdings, either held by the client before our management, or purchased at their direction during our management, remain their responsibility. If a portion of the client's assets reside in pension plans or variable annuities or any other account, FSA may, with the client's permission, direct those investments through avenues established by the plan. FSA has additional authority as necessary and incidental to the supervision and investment of the portfolio.

We do not have authority to deposit or withdraw funds from any client's accounts.

Each time money is invested in a new investment vehicle in which funds have not been previously placed, FSA contacts the client regarding the new proposed investment. Client's approval may be given verbally by telephone before purchase, and confirmed by signed correspondence afterwards. Additional investments using the same investment vehicle may take place without a specific written approval although we still ask for verbal approval on subsequent buys.

Brokerage account applications grant FSA the authority described above, where no deposits and withdrawals are allowed. The client initials the option 'trading authorization' instead of 'trading and disbursement authorization', in effect executing a limited power of attorney.

Clients can also initial the additional option 'fee payment authorization' which gives FSA authority to deduct FSA's fee, from that particular account. Certain restrictions are placed on that process. Clients must receive a billing statement (invoice) on the fee at least 14 days before the fee is deducted from the account. Clients receive a statement from the third-party financial institution showing that the fee, and the amount, has been deducted.

### **Voting Client Securities**

FSA's policy is to not vote proxies. Our policy is to have clients vote proxies. Proxy information is set up on client accounts to go directly to the client. There may be an occasional exception to this policy. When/if we're voting, we would usually vote with management unless the client explicitly directed us to vote otherwise on an issue.

Clients receive their proxies and other solicitations directly from their custodian. Clients can, if they choose, contact us with questions about a particular solicitation. For example, if there's a class-action lawsuit, or a small-lot offer to purchase, we review the situation with them, along with the pros & cons of the options, and give them a recommendation. The clients then decide which is best for them.

### **Financial Information**

We do not collect investment management fees of more than \$500 per client, six months or more in advance. We do however charge a setup fee, which usually varies from \$2,000 to \$3,000. That is a flat fee, estimated in advance, based on how complex the client's financial situation is, and how many issues we'll need to cover or research. This reimburses us for the staff hours we put in to setup and analyze the client's financial information – related to their cashflow, insurance planning, estate planning, college planning, pensions, retirement planning (projections and social security analysis), and investment accounts. That setup is billed during the first 2-3 months, as our staff spends time on that client. Those bills are sent at the end of each of those months, after the staff hours are spent. It is not an investment management fee (No investing, or trades, is even occurring at that point yet.). If the client would, for some reason, decide to terminate at that point, the setup fee is not reimbursed since the staff time was already put in for that client. We send the client an engagement letter to cover the scope of our work during this setup process, and to provide written documentation of our setup estimate. We write off billable hours above the estimated amount. We customarily write off approximately 50% of the actual amount/time expended, sometimes more.

Once FSA starts managing investments in the client's accounts, the management fee is billed quarterly, in arrears, per the calculation described in the Fees and Compensation section.

### **Part 2B Brochure Supplement**

#### **Sandra Weaver**

##### **Educational background**

Business degree, magna cum laude, Drake University, Des Moines, Iowa 1978. Born: 1956.

Majors: accounting and computer information systems.

Certified Public Accountant, Missouri State Board of Accountancy, March 1980. The CPA designation requires the passing of the Uniform CPA exam. It encompasses the following areas of accounting 1) auditing and attestation 2) financial accounting and reporting 3) regulation 4) business environment and concepts. It requires one year of accounting experience and 120 hours of continuing education every 3-years.

Certified Financial Planner™, International Board of Standards and Practices for Certified Financial



Planners, July 1990, after completing studies from the College for Financial Planning. The CFPTM designation requires a minimum of 3 years in the financial planning industry prior to passing the 10-hour exam. It encompasses the following areas of financial planning: 1) insurance, 2) tax strategies 3) retirement planning 4) estate planning 5) investments. It requires 30 hours of continuing education every 2 years.

Chartered Financial Analyst®, Institute of Chartered Financial Analysts, September 1993. The CFA designation requires a minimum of 3 years in the investment industry prior to passing 3 separate 8-hour exams (24 hours total) given over a 3 year period. It encompasses the following areas of investment: 1) structuring and managing portfolios 2) investment theory 3) analysis of stock and bond investments 4) global markets 5) accounting, corporate finance and economics 6) quantitative methods.

#### Business experience

Ms. Weaver has provided financial planning services to clients since 1987, through FSA since 1995. Prior to starting FSA, Sandi worked with an investment management firm, CFW Management, for over seven years, focusing primarily on high net worth individuals with investments in individual securities, bonds, and mutual funds.

She has provided expert witness testimony on financial assets for attorneys in court cases. She has managed substantial private family investments since 1980 in stocks, bonds, and mutual funds.

Approximately 50% of her time is spent on activities other than investments. These include managing the practice, reviewing other team members' work on retirement projections, estate planning analysis, insurance analysis, etc. for clients.

Sandi Weaver is the sole shareholder and president of FSA.

#### Other business activities

Member, Missouri Society of CPAs:

Member, Personal Financial Planning State Committee for that organization;  
contributing author, MSCPA's journal for CPAs on financial planning;  
speaker, Missouri CPA Chapter meetings on financial planning.

Member, Heartland Chapter of the Financial Planning Association (Kansas City chapter)

Member, Association for Investment Management and Research (AIMR)

Represents the firm, which is a member, at the Northeast Johnson County Chamber of Commerce

She is not actively involved in any other businesses. She does not work for any other organization.

#### Additional compensation received

None

#### Disciplinary information

None

#### Description of how the advisor monitors the investment advice provided

See section Review of Accounts

#### Explain how fees will be calculated if you or a supervised person is compensated with performance-based fees

Does not apply

If you or a management person has been involved in one of the events below, disclose all material facts  
Found liable in an arbitration claim – not applicable  
Found liable in a civil, self-regulatory organization, administrative proceeding – not applicable

Describe any relationship/arrangement with any issuer of securities  
Not applicable

### **Jim Stoutenborough**

#### **Educational background**

Bachelor of Science degree, University of Illinois, Urbana, IL 1979. Born 1957.

Major: business administration

Received Certified Financial Planner™ certification from Certified Financial Planners Board of Standards, Inc. in July 2001 after completing studies at the University of Missouri – Kansas City

#### **Business experience**

Jim Stoutenborough is a Certified Financial Planner™ at FSA. The CFP™ designation requires a minimum of 3 years in the financial planning industry prior to passing the 10-hour exam. It encompasses the following areas of financial planning: 1) insurance, 2) tax strategies 3) retirement planning 4) estate planning 5) investments. It requires 30 hours of continuing education every 2 years.

Jim has provided financial planning services to clients through FSA since 2003. He was employed by American Century for 6 years in their brokerage and mutual fund areas. He provided advice to high-asset clients, handled account inquiries and trades. He also provided investment research and market information to management and clients. He supervised staff handling client relations.

Prior to that, Jim worked at American Express Financial Advisors using financial planning skills in retirement planning, investment and insurance planning, college projections, taxes, and estate planning. Jim also has prior management experience in the retail sector.

Approximately 50% of his time is spent on activities other than investments. This includes retirement planning and projections, office workload management, and reviewing other team members' work.

#### **Other business activities**

Represents the firm, which is a member, at the Northeast Johnson County Chamber of Commerce

He is not actively involved in any other businesses. He does not work for any other organization.

#### **Additional compensation received**

None

#### **Disciplinary information**

None

#### **Description of how the advisor monitors the investment advice provided**

See section Review of Accounts

Explain how fees will be calculated if you or a supervised person is compensated with performance-based fees  
Does not apply

If you or a management person has been involved in one of the events below, disclose all material facts  
Found liable in an arbitration claim – not applicable  
Found liable in a civil, self-regulatory organization, administrative proceeding – not applicable  
After a change in marital status, a petition for bankruptcy was filed and finished/discharged in 2004.

Describe any relationship/arrangement with any issuer of securities  
Not applicable