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## **PRIVATE WEALTH MANAGEMENT PROGRAM**

**Sponsored by:**

**SCHMIDT FINANCIAL GROUP, INC. ("SFG")**

This brochure provides clients with information about SFG and the PROGRAM that should be considered before becoming a client of the PROGRAM. This information has not been approved or verified by any governmental authority.

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This brochure describes in detail the managed asset programs offered by Schmidt Financial Group, Inc. ("SFG") known as the PRIVATE WEALTH MANAGEMENT PROGRAM ("PROGRAM"). The PROGRAM includes comprehensive account management programs utilizing various combinations of investment services that are provided either by SFG or by other financial institutions that may or may not be affiliated with SFG. SFG is not a portfolio manager on the platform.

## SERVICES

### Services Offered in PRIVATE WEALTH MANAGEMENT PROGRAMS

#### ***STATEMENT OF INVESTMENT POLICY -***

- Information regarding Client's objectives, risk tolerance, anticipated contributions and withdrawals and overall financial profile is collected on a Client Profile, usually by Financial Adviser and/or Solicitor. A written Statement of Investment Policy is developed which provides guidelines defining goals and objectives, permissible investments, standards for selection of service providers and standards for ongoing evaluation of investment performance.
- Asset Allocation Analysis — Information regarding Client's objectives, risk tolerance, anticipated contributions and withdrawals and overall financial profile is collected on a Client Profile. Based on this information, a detailed, in-depth allocation examination of portfolio diversification strategies and their possible benefits is conducted and an Asset Allocation Analysis is developed which proposes a specific allocation strategy for Client's Managed Assets among equity, balanced, and/or fixed income Portfolio Managers (as described below), and/or mutual fund portfolios (as described below).
- Investment Product Development, Selection, Monitoring and Due Diligence Services — SFG offers two separate investment product options to clients:
  - Portfolio Managers who manage all or a portion of client's assets in accordance with that Portfolio Manager's asset class specialties ("Separately Managed Account Program" or "SMA"); and
  - Mutual Fund Portfolios that represent a strategic asset allocation ("Mutual Fund Account Program" or "MFA"). Clients may select either SMA or MFA or a combination of both.

SFG is not affiliated with any Portfolio Manager or with any mutual fund; however, agents of SFG may receive reimbursement for expenses incurred in connection with seminars, conferences, meetings and research conducted by SFG and/or research reports. Some advisory associates of SFG who are also registered representatives of NFP Securities, Inc. ("NFPSI") may receive 12b-1 fees from mutual funds.

In addition, NFPSI may from time to time, at the request of a Portfolio Manager, execute transactions for the account of the Portfolio Manager, which transactions are unrelated to client accounts in any of SFG's programs.

In this event, appropriately licensed agents of SFG may receive compensation in the form of commissions. The relationship among agents of SFG and NFPSI are discussed later in this document.

### ***SEPARATELY MANAGED ACCOUNT PROGRAM (SMA)***

SFG offers SMA through an unaffiliated third party manager — Envestnet Asset Management, Inc. ("Envestnet"). A disclosure brochure providing information regarding Envestnet and details regarding the SMA program will be separately provided prior to such account opening.

### ***THE MUTUAL FUND ACCOUNT PROGRAM (MFA)***

SFG offers customized mutual fund allocations to MFA clients, utilizing mutual funds that have undergone SFG's due diligence investigation, selection and monitoring process. The models available are either

- Strategic Asset Allocations, wherein a specific asset allocation model has been established by SFG that does not change;
- Tactical Asset Allocations, wherein outside consultants are used to establish ranges of allocations within asset classes and to actively manage and make appropriate changes those ranges;
- Asset Class Portfolios which contain mutual funds relating to a specific asset class.

Strategic Asset Allocations and Tactical Asset Allocations are designed in accordance with a client's risk tolerance and investment objectives and may include equity and fixed income securities. They may also include US and non-US securities. Asset Class Portfolios may include any specific asset class of equity and fixed income securities, US and non-US chosen in accordance with the client's risk tolerance and investment objectives. SFG's research process relating to the mutual funds that populate the Mutual Fund Allocations is a combination of both quantitative and qualitative processes.

Generally, SFG is seeking to fill the mutual fund search database with those funds/managers that excel at what they do, and usually find funds in all asset classes. SFG's semi-annual search process consists of 3-Year Style Analysis, 5-Year Style Analysis and 5-Year Decision Variable and Asset Class Rankings. The style analysis allows for screening based on particular betas, alpha, and the T-stat of the alpha. The decision variable and asset class rankings sort every mutual fund by the asset class that each fund best represents.

Further, within each asset class, a complex computation ranks the funds based on their 5-year performance, alpha, tracking, expenses, downside deviation, and multi factor style analysis characteristics. Finally, each individual fund is further analyzed for style consistency, alpha generation, peer group analysis, holdings consistent with asset class, tax analysis, manager expertise and expense ratio. All mutual funds that "pass" the search models are subjected to a further qualitative review to refine suitability for client portfolios.

### ***BROKERAGE SERVICES***

The fees for brokerage services are included in SFG's portion of the Portfolio Fee, except for those transaction fees specifically identified in the Client Service Agreement. See "Fees" below for more information.

In SMAs, the Portfolio Manager determines whether the trades should be directed to Broker for execution or whether, based on their judgment, best execution of the client order can be obtained with other trade execution sources. Broker and Portfolio Manager may combine market orders for more than one client for the same security in accordance with applicable laws and regulations in order to obtain the better net price and most favorable execution. In the event execution is directed to a source other than Broker, Broker typically will clear the transaction with the execution source and confirm the client at the price the Portfolio Manager was quoted for the order. No other fees or taxes are charged or added to the cost of the transaction.

### ***CUSTODIAL SERVICES***

This service is provided or arranged by a bank, trust company, securities brokerage firm or other financial institution designated by Client ("Custodian") who is unaffiliated with SFG. Client may designate a separate Custodian for SMAs and MFAs and Custodian and Broker may or may not be the same entity. Each client either authorizes SFG to enter into, or enters into a custody agreement directly with the Custodian who maintains independent custodial accounts in the name of Client. The Custodian maintains their own account records and provides a statement to clients at least quarterly unless waived by Client. Neither SFG nor Envestnet have custody of these accounts. The fees for custodial services are included in the Portfolio Fee paid by client unless otherwise stated in the Client Services Agreement.

### ***PERFORMANCE ANALYSIS AND REPORTING SERVICES***

This service is included for SMA and MFA programs. Performance Reports are provided by Envestnet and include a detailed quarterly evaluation of investment performance utilizing a time-weighted calculation standard as recommended by the Association for Investment Management & Research ("AIMR").

The report contains general market analysis and commentary, charts and graphs detailing performance in the account and comparisons to appropriate benchmarks and indices as well as a comprehensive quarterly statement of account.

### ***QUARTERLY CONSULTATIONS WITH CLIENTS***

On a quarterly basis, consultations are typically held with Client to review the performance of their Managed Assets in the program. Any changes to Client's financial goals and objectives may be reviewed at this time, but no less frequently than annually.

SFG may assist in determining whether or not changes should be made to Client's account in order to meet their financial goals and objectives.

## **FEES**

Envestnet collects, or arranges for the collection of, an annual asset-based fee from Client for the services provided in the program ("Portfolio Fee") and distributes, or arranges for the distribution of, designated portions of the Portfolio Fee to the appropriate service providers.

Further information and disclosures regarding Fees can be found in the service provider's contract with client and/or their Form ADV, Part II or Disclosure Brochure, as applicable.

The Portfolio Fee is payable quarterly in advance, as specifically described in the client services agreement. For SMAs, the Portfolio Fee is comprised of SFG's Advisory Base Rate ("ABR"), which covers all services provided or arranged by SFG; a Service Fee, which covers services provided by Solicitor and/or Financial Adviser; and in some cases, an Administrative Fee, which covers certain administrative services provided by Solicitor. The blended Portfolio Fee will be reflected in the client agreement and will vary depending on the account size.

For MFAs, the Portfolio Fee is comprised of SFG's Service Fee, which covers all services provided or arranged by SFG.

SFG's ABR used by a Solicitor is typically not negotiable on a client-by-client basis. Envestnet and or SFG may determine to pay a portion of its fees to the Solicitor in exchange for administrative services supplied to SFG. These services may include the extent of promotion and advertising undertaken by the Solicitor and other similar considerations and certain administrative services. Solicitors may also be paid based upon the total amount of Managed Assets of all such Solicitor's clients.

The Service Fee is determined by the Solicitor and/or Financial Adviser and may vary from one Solicitor and/or Financial Adviser to another depending on the nature of the relationship between Financial Adviser and Client, the type and extent of the services provided, and the policy of Solicitor.

### ***PORTFOLIO FEE SCHEDULES***

The Portfolio Fee is based on the Recommended Fee Schedules set forth below. There is a separate schedule to be applied to Equity and Balanced Accounts and another schedule to be applied to Fixed Income Accounts. Equity Accounts contain equity classes of securities; Fixed Income Accounts contain fixed income classes of securities; and Balanced Accounts contain a mixture of equity and fixed income classes of securities. All accounts may from time to time have a portion of its assets in cash or cash equivalents.

## **Recommended Annual Fees — SMA**

(Portfolio Fees will vary based on the account size, see client agreement)

ABR Equity	.685% to .88%
ABR Fixed Income	.25%
Service Fees	.48% to .50%

## **Recommended Annual Fees — MFA**

Account Value	Annual Fee %
\$0 - \$249,999*	1.50%
\$250,000 - \$499,999	1.25%
\$500,000 - \$999,999	1.00%
\$1,000,000 and over	.75%

## ***REFUNDS***

Any fees collected in advance will be refunded to client after a notice of termination on a pro rata basis as provided for in the advisory agreement between client and SFG. Upon termination, any unearned fees will be returned. Fees may be negotiable at the discretion of SFG.

## ***BILLING CYCLE***

Once the Client's accounts in the Program are established, Client will be billed the Portfolio Fee for the remaining portion of the month in which those events occurred and further billed on either a monthly or quarterly (calendar or fiscal) basis as set forth in the client advisory agreement. The client will then receive a Client Billing Statement showing the Portfolio Fee calculated based on

- (i) the ending market value of the securities comprising the Managed Assets for the prior period (month or quarter). The fee calculation may be done by Envestnet or SFG as set forth in the client advisory agreement. Upon receipt of a copy of the Client Billing Statement, Custodian will debit the Portfolio Fee from Client's account based on authorization from Client contained in the advisory agreements unless the client and SFG have made other arrangements.

## ***GENERAL DISCLOSURES***

The Portfolio Fees plus applicable Provider Fees may be more or less than the cost of purchasing the same services separately or from a different source. The factors to be considered by clients in determining the reasonableness of the fees charged include but may not be limited to the following:

- The fee charged for development of an asset allocation study and/or development of a statement of investment policy.



- The cost associated with gathering information on individual Portfolio Managers and/or Mutual Funds ("Due Diligence") and the costs associated with the ongoing monitoring of their business and performance, as well as the preparation of reports on the Portfolio Managers ("Manager Profiles") and mutual funds ("Track Sheets").
- The custodial costs for a segregated bank custody account.
- Transaction costs and/or other miscellaneous fees and taxes and/or charges as well as commissions or markups and markdowns on the purchase and/or sale of securities.
- The cost of producing a quarterly performance report covering the Managed Assets, Portfolio Managers and Mutual Fund Portfolios and the cost of obtaining tax lot statements with accruals, and both realized and unrealized gains and losses.
- The value of the consulting service provided by Solicitor, Financial Adviser and SFG in designing and then monitoring the client's Managed Assets and helping the client periodically determine the mix of Accounts for the Managed Assets as well as the suitability of the Portfolio Manager(s) and Mutual Funds.
- The cost of investment advice provided by Portfolio Managers through the Program. Performance information on Portfolio Managers is not verified by SFG or a third party. Performance information is calculated on a uniform and consistent basis. Performance information on Portfolio Managers is reviewed to determine its accuracy. The persons responsible for this review are affiliated with SFG. The data is reviewed relative to an appropriate style benchmark and equivalent SFG composites. The Client Profile contains specific information about the client, the client's financial data and the client's employment and, to a certain extent, the client's personal information. Additionally, the Client Profile contains the client's responses to the importance of and the order of importance of certain investment factors such as liquidity, income, growth, safety of principal and the like. Finally, the Client Profile contains client information, which helps SFG, Solicitor and Financial Adviser assess the risk tolerance of the client. The Client Profile also allows the client to describe restrictions or prohibitions that the client wishes to impose on its portfolio.
- The Client Profile is provided to the Portfolio Manager. Additionally, the client enters into an agreement directly with the Portfolio Manager ("Portfolio Management Agreement"). Any change in the information contained in the Client Profile and other relevant information is forwarded to the Portfolio Manager by SFG. The client may contact the Portfolio Manager directly regarding its account, although generally it is expected that initial questions concerning the Portfolio Manager will be directed to SFG. SFG also provides the services identified herein on a contract fee basis. Services may be provided directly by SFG or subcontracts to a custodian or other service provider. Contracts are generally with institutional clients and other advisory or financial services firms for services such as program administration, brokerage, custody, Portfolio Manager selection, due diligence and/or performance reporting. In some circumstances, clients or firms negotiate a commission rate for transactions and pay the contract fee with commissions.

## **TYPES OF CLIENTS**

SFG provides the Programs to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, foundations, endowments, corporations and other business entities.

## **IMPORTANT DISCLOSURES**

### **Other Business Activities**

Some associated persons of the applicant are registered representatives of NFPSI and insurance agents/brokers of various insurance companies. In such capacities, associated persons of the applicant may receive the normal commissions and/or other compensation.

### **Other Financial Industry Activities or Affiliations**

Some associated person(s) of SFG are registered securities representatives of NFPSI, a registered broker-dealer, member of the Financial Industry Regulatory Authority ("FINRA"), and a registered investment adviser. NFPSI is a diversified financial services company engaged in the distribution of investment advice and investment products. Associated persons of SFG may recommend securities or insurance products offered by NFPSI, and receive normal commissions if products are purchased through them. Thus, a conflict of interest exists between the interests of the associated persons and those of the advisory clients. The clients are under no obligation to purchase products recommended by these associated persons or to purchase products either through these associated persons or NFPSI.

Under the rules and regulations of FINRA, NFPSI has obligations to maintain records and perform other functions regarding certain aspects of the investment advisory activities of its registered representatives in relation to certain advisory accounts for which its registered representatives provide investment advice. These obligations require NFPSI to coordinate with, and have the cooperation of the account custodian.

In order to fulfill its obligation, NFPSI has established a list of custodian and brokerage firms which it has arranged to obtain the required cooperation, and which therefore may be utilized for custody of accounts directly advised either by registered representatives of NFPSI who are investment advisers or other investment advisory entities which are affiliated with registered representatives of NFPSI. In certain instances, NFPSI may collect, as paying agent for the Adviser, the investment advisory fee remitted to the Adviser by the account custodian, and NFPSI will retain a portion as a charge to the investment adviser (not the client) for the functions NFPSI is required to carry out by FINRA.

This fee will not increase execution or brokerage charges to the client or the fee the client has agreed to pay to the Adviser pursuant to the client's advisory agreement. A portion of the fee retained by NFPSI may be re-allowed to other registered representatives of NFPSI who, as registered representatives of NFPSI, are responsible for the supervision of other representatives and assist NFPSI with the functions described above.

On occasion SFG may refer clients to other professionals for services that SFG is unable to perform, primarily banking, accounting and/or legal services. In turn SFG may receive referrals from these firms. Although there is no direct monetary benefit derived from these arrangements, they are mutually beneficial and provide an indirect benefit. SFG will never base its referrals solely on any reciprocal arrangement in place. Reciprocal arrangements are a professional courtesy so a non-compete and nondisclosure agreement is the only formal document signed. Clients may review these agreements at any time.

Some associated persons of the Adviser are insurance agents/brokers of various insurance companies. In such capacities, associated persons of the applicant may receive the normal commissions and/or other compensation.

Some advisory associates of SFG are registered representatives with the broker-dealer and earn commissions on securities and insurance transactions. In addition, as registered representatives, associates may receive payments from certain mutual funds distributed pursuant to a 12b-1 distribution plan or other such plans as compensation for administrative services, representing a separate financial interest on the advisory associate's behalf. However, advisory associates do not receive 12b-1 fees on ERISA and other retirement accounts to include but not limited to IRA accounts. As such, a substantial conflict of interest may exist with respect to recommendations to buy or sell securities. Such conflicts are disclosed in the applicable advisory contract with clients. In all cases, transactions are effected in the best interests of the client. SFG does not permit insider trading and has implemented procedures to ensure that its policy regarding insider trading is being observed by advisory associates.

## **EXECUTIVE OFFICERS:**

### ***GLEND A SUE SCHMIDT***

Glenda Sue Schmidt was born in 1949

San Jose State University, MBA, 1980 San Jose State University, BA, 1978

Schmidt Financial Group, Inc. President 11/1999 - present

NFP Services Inc., registered representative, 4/2003 - present

Financial Network Investment Corporation, registered representative, 3/1995 - 03/2003

Schmidt Financial Group, owner, 12/1993 - 11/1999

### ***TIMOTHY DEAN GRIFFITH***

Timothy Dean Griffith was born in 1959

University of Washington, Seattle, WA, BA, 1982

Schmidt Financial Group, Inc. Vice President, 10/2000 - present

NFP Services Inc., registered representative, 4/2003 - present

Financial Network Investment Corporation, registered representative, 10/2000 - 3/2003

Dreyfus Corporation, wholesaler, 12/1999 - 10/2000

### ***RYAN KENNETH SCHMIDT***

Ryan Kenneth Schmidt was born in 1978

Stanford University, MBA, 2006

Stanford University, BA, 2000

Schmidt Financial Group, Inc. Vice President, 8/2006 - present

VMware, Product Manager Intern, 6/2005 - 8/2005

Advent International, Associate, 7/2002 - 1/2004

Boston Consulting Group, Associate, 9/2000 - 6/2002

### ***EVAN TODD SCHMIDT***

Evan Todd Schmidt was born in 1983

University of Southern California, BS, 2005

Schmidt Financial Group, Inc. Vice President, 7/2009 - present

Deloitte Consulting, Consultant, 2/2006 - 6/2009

## **REVIEW OF ACCOUNTS:**

The nature and frequency of account reviews depends on the type of investment account being managed. Accounts are generally monitored on a weekly basis depending upon the needs of the client and the investment objectives and policies of the account. Accounts are reviewed by an agent or principal of SFG. Reviews are conducted to ensure that the accounts are being managed in accordance with stated investment objectives and policies, and in order to facilitate and implement those objectives and policies. SFG provides reports to its clients on at least a quarterly basis, and in some cases more frequently. These reports vary depending upon the nature of the account and its investment objectives and policies, but typically include information about asset allocation, investment performance and the portfolio's comparative risk profile.

All accounts are subject to a regular and ongoing review in an active management style to assure conformity with client objectives and guidelines. Accounts are reviewed in light of emerging trends and developments as well as market volatility. In addition, a change in the client's investment objective or financial situation may trigger a review.

Clients receive reports showing holdings and performance, which are sent to clients quarterly. Detailed reports, which may include realized gains/losses, interest and dividends earned are reported to clients no less than annually. Clients receive confirmations of transactions and statements of positions from the account custodian, unless waived in writing by the client, which may be a mutual fund company or a brokerage firm. These statements are provided no less than quarterly. Client account status, including balances, holdings and transactions are available for online client view via secure connection.

## **CONFLICTS OF INTEREST**

SFG negotiates with Portfolio Managers and other non-affiliated companies concerning their fees for investment management of the client's accounts, and pays those fees from the total Portfolio Fee charged to the client. Envestnet is also responsible for the monitoring and due diligence of the Portfolio Manager and their overall continued participation in the Program. To the extent a lower fee charged by the Portfolio Manager benefits SFG or Envestnet, a conflict is created between Envestnet/SFG's responsibilities to clients to monitor the Portfolio Manager on an arm's-length basis and Envestnet/SFG's financial interest in negotiating a favorable fee with the Portfolio Manager.

## **PRIVACY PROMISE**

Your relationship with Schmidt Financial Group, Inc. is based on trust and confidence. To fulfill its responsibilities to you, Schmidt Financial Group, Inc. requires that you provide current and accurate financial and personal information. You deserve to expect Schmidt Financial Group, Inc. will protect the information you have provided in a manner that is safe, secure and professional. Schmidt Financial Group, Inc. and its employees are committed to protecting your privacy and to safeguarding that information.

### **Safeguarding Customer Documents**

During regular business hours access to customer records is monitored so that only those with approval may access the files. During hours in which the company is not in operation, the customer records will be locked.

No individual who is not so authorized shall obtain or seek to obtain personal and financial customer information. No individual with authorization to access personal and financial customer information shall share that information in any manner without the specific consent of a firm principal.

Failure to observe Schmidt Financial Group, Inc., procedures regarding customer and consumer privacy will result in discipline and may lead to termination.

### **Sharing Nonpublic Personal and Financial Information**

Schmidt Financial Group, Inc. is committed to the protection and privacy of its customers' and consumers' personal and financial information. Schmidt Financial Group, Inc. will not share such information with any nonaffiliated third party except:

- When necessary to complete a transaction in the account, such as with clearing firms, account custodians or portfolio managers
- When required to maintain or service the account
- To resolve customer disputes
- When requested by a fiduciary or beneficiary on the account
- To the client's attorneys or accountants,
- When required by a regulatory agency, or for other reasons required or permitted by law
- In connection with a reorganization of Schmidt Financial Group, Inc.'s business.
- In any circumstance that has the customer's instruction or consent; or
- Pursuant to any other exceptions enumerated in the California Information Privacy Act.

### **Opt-Out Provisions**

It is not a policy of Schmidt Financial Group, Inc. to share nonpublic personal and financial information with unaffiliated third parties except under the circumstances noted above. Since sharing under the circumstances noted is necessary to service the client account or mandated by competent authority, there are no allowances made for clients to opt-out.