

Financial Counseling, Inc.  
Disclosure Brochure  
March 22<sup>nd</sup>, 2012

*Item 1 – Cover Page*

*CRD # 119969*

This brochure provides information about the qualifications and business practices of Financial Counseling, Inc. (“FCI” or “Advisor”) and its owner Stevan M. Vaughan and staff.

If you have any questions about the contents of this brochure, please contact us at (937) 748-8710 or [Steve.Vaughan@Fincounsel.com](mailto:Steve.Vaughan@Fincounsel.com).

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Financial Counseling, Inc. is a Registered Investment Advisor. Registration as an Investment Advisor does not imply any level of skill or training. This disclosure document is designed to grant current clients as well as potential clients the opportunity to carefully read and establish an understanding of the various investment advisory services that are offered and the respective fees and expenses of those services. The information contained in this document is important to the conduct of both parties entering an advisory contract. While investment advisors have a fiduciary duty to put the needs of clients before their own, clients likewise have a duty to investigate and maintain a basic understanding of the services offered by the Advisor. We hope this document serves as a leading educational tool to aid clients and prospective clients in understanding how Financial Counseling, Inc. conducts investment advisory services.

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## *Item 2- Material Changes*

There have been no material changes in the business services of Financial Counseling, Inc. during the past year. In the future, this portion of the brochure will discuss specific material changes that are made to the brochure and provide clients with a summary of such changes to this and subsequent brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

Additional information about Financial Counseling, Inc. is also available via the SEC web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC web site also provides information about any persons affiliated with Financial Counseling, Inc. who are registered as investment adviser representatives of FCI.

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#### *Item 4 – Advisory Business*

Financial Counseling, Inc. was formed in July 1995 and is a corporation organized in the State of Ohio. Stevan M. Vaughan is the President and sole owner. Financial Counseling, Inc. was registered with the SEC in 2010, but due to the newly implemented registration requirements for 2011 is in the process of transitioning that registration to the State of Ohio.

Financial Counseling, Inc. provides “fee for service” financial planning and investment advice. Areas of advice include asset allocation, investment selection, retirement planning, college funding and employee benefits and qualified plan subaccount analysis. Engagements are limited in scope based on the client’s unique circumstances.

The Advisor gathers financial data including the client’s goals, circumstances, financial condition and risk tolerance. The adviser then prepares and delivers analysis and recommendations to the client. Recommendations may be in a written/electronic format, or in the form of verbal (in-person or phone) discussion, or both.

Clients engage Financial Counseling, Inc. on a “pay as you go” basis. The services a client receives are dependent upon the individual needs and requests by the client, but often times the services rendered are continuous and on-going. The investment management services provided by Financial Counseling, Inc. often involve investment modeling where trades are conducted with the use of Advisor discretion. The Advisor will perform “active” management to a client’s account in accord with pre-described/defined goals and risk tolerances provided by the client. When discretionary authority has been given to Financial Counseling, Inc. or one of the IARs of FCI and company, this allows FCI to “take action” without first receiving approval from the client. The “action” is limited to purchases and/or sales of securities (Stocks/Bonds/Mutual Funds/ETFs...), but does not allow the Advisor to move funds between accounts or transfer assets from the account. All transactions occur at a qualified custodian that produces statements. These statements may be produced monthly, but must be produced at least quarterly and contain the basic account value and holdings of the managed accounts along with listing the activity that occurs within the account(s) being managed by FCI. The statement provided by the custodian will also contain the advisory fee charged by FCI. Fees charged by FCI are separate from the fees charged by Mutual Funds and other investment companies. Therefore, FCI recommends consulting the Mutual Fund prospectus for more information about their fees.

FCI also provides long term buy and hold services that do not involve active management of client accounts. Clients may choose a service that offers asset allocation services that are managed by FCI that make less active transactions and is designed to keep expenses low, while offering market related rates of return. If services are selected that do not entail discretionary authority, then clients are free to implement all, some, or none of the Advisor’s recommendations and the full responsibility of implementation rests with the client.

### *Item 5 – Fees and Compensation*

Fees are charged on a “pay as you go” basis. Fees are negotiable and may vary from client to client. Fees are quoted in advance and must be accepted by client prior to project commencement or investment management. Executing a signature on the client agreement or paying a partial/full payment of fee acknowledges acceptance by client.

Financial Counseling, Inc. negotiation of investment management fees are based on one or more of the following factors:

- The number of accounts, positions, account objectives, risk tolerances and restrictions requested by the client
- The estimated amount of time expended in researching, analyzing and documenting the specific recommendation(s) and course(s) of action.
- The requests of each client regarding follow up and forms of communication requested
- The familiarity (or lack thereof) between FCI and the client based on experience and client interaction
- A competitive analysis of other advisory firm’s fees
- The total amount of assets requested to be managed

Client agrees to supply Financial Counseling, Inc. with the ability to deduct fees from the account(s) on a quarterly basis. This fee deduction process will occur in arrears of service provided and will be accompanied by a quarterly fee notification that will be supplied to the client and evidenced on the account statement produced by the qualified custodian. Quarterly fees are based on the ending value of securities on the last day of the quarter.

The following is an example of how a quarterly fee is calculated:

\$800,000.00 value of assets under management on the last day of the quarter at an annual fee of 1.5% would render the following quarterly bill.

1.5% annual fee divided by 4 individual quarterly periods = 0.00375

$\$800,000.00 \times 0.00375 = \$3000.00$  Fee for the quarter

Advisory fees are calculated, and billed quarterly, in arrears. Annual percentages applied currently range from 0.375% to a maximum fee of 2.00%, but are subject to change, and are subject to negotiation and individual determination based upon particular facts and circumstances of a client and the extent of advisory services anticipated. Clients may choose to pay fees by check or opt to have the fees debited directly from client's accounts as stated in the Client Services Agreement. These fees may

be considered higher than average as related to other investment advisory firms, as such, clients may be able to attain similar services at a lesser cost elsewhere.

In rendering services described above, FCI makes recommendations only, these recommendations can be implemented through FCI as a licensed securities broker in the following methods: Non-discretionary or Discretionary.

Discretionary Transactions are directed by FCI for accounts that have a limited discretionary authority agreement. Clients who choose to provide FCI with discretion have empowered FCI to buy and sell securities without the client's prior knowledge or consent. Clients may, by contract, place restrictions on FCI's discretionary authority. Trail fees or 12(b)(1) fees on these discretionary accounts may be paid to FCI. FCI may act as the investment advisory client's representative in the execution of securities transactions on a normal and customary basis. The use of a registered broker/dealer for such transactions is at the client's complete discretion. The receipt of commissions creates the possibility of a conflict of interest. Advisors that can make both fee and commission must put the client's interest ahead of any personal financial gain, this disclosure is to serve notice to clients of the inherent conflict of charging fees and having the ability to also make commissions. Clients have the right to ask if commissions are also being made by the Advisor on accounts where they are charging fees. Clients may pay higher commission rates than otherwise available. FCI and its principals, and not the broker/dealer are solely responsible for the quality of investment advice provided to clients.

For the purpose of implementing recommendations and effecting transactions in the course of construction of a client portfolio and ongoing monitoring or management, FCI may direct advisory clients to a licensed securities broker-dealer with which he is affiliated as a registered representative. Advisory clients are under no obligation to effect any portfolio transaction with or through FCI or any broker-dealer with which he may be affiliated as a registered representative, and may at any time direct that portfolio transactions be effected with or through any other appropriately licensed securities broker-dealer or registered representative. Investment Advisory Representatives (IARs) who choose to effect transactions for advisory clients through a securities broker/dealer with which they are affiliated, may receive certain types of transaction-based compensation, which is in addition to the advisory fees paid to the IAR by clients.

Financial Counseling, Inc. has no direct relationship with any specific custodian or brokerage firm and receives no commission compensation from TD Ameritrade Institutional with regard to client transactions. The platform at TD Ameritrade Institutional is a quality, low fee, low ticket charge, brokerage option that has been a good fit for investment management services.

Financial Counseling, Inc. management programs are not considered "wrap fee program" in that clients are responsible for paying any and all transaction costs, including, but not limited to customary ticket charges, postage and service fees and annual maintenance fees that may be issued by the custodians.

### *Hourly Charges and Fixed Fees Charged by Advisor*

Advisor provides investment planning services consistent with individual client's financial and tax statuses, risk tolerance and investment objectives. Fees are billed at a negotiated rate between the parties. Hourly fees usually range from \$150 to a maximum rate of \$400 per hour. The client may make structured payments with a portion of the fees paid up-front and the remainder of payments made upon completion of the service(s). These options are available in the client agreement. Planning fees are often paid by check, but if the client chooses, they may have the fees debited directly from accounts managed by Advisor. These services may also be negotiated as a fixed fee. Unless otherwise stated, client agreements are for a period of one year and are automatically renewed each year. The Client or Advisor may terminate the advisory agreement at any time upon thirty (30) days written notice. There is no provision for refunds when services have been rendered.

In certain instances, depending upon the client's needs and the services to be performed by the Advisor, the advisory fee may be based upon individual negotiations with the client. In such instances, the fee is stipulated and agreed upon in the advisory contract.

### *Item 6 – Performance-Based Fees and Side-by-Side Management*

Financial Counseling, Inc. does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

### *Item 7 – Types of Client*

Financial Counseling, Inc. takes an active approach to managing the types of clients that are accepted by the firm. The clients that Financial Counseling, Inc. currently choose to work with are often “main street” every day people. There are some clients that have high net worth and would be considered “accredited” investors (individual net worth of any natural person, or joint net worth with the spouse of that person, at the time of purchase, is more than \$1,000,000 [as such amount is adjusted periodically by rule of the Commission], excluding the value of the primary residence of such natural person.) However, Financial Counseling, Inc. does not impose any account limits or restrictions for maintaining or managing an account. The firm requires clients to disclose current financial status and investment objectives to the Advisor at the time of opening an investment account. These documents are updated as needed. Clients are requested to inform the Advisor whenever the client has experienced a significant change in financial status or condition or wish to change the investment objectives on the account. (Example: Client wishes to change investment objective from Aggressive Growth to Moderate. The client would need to complete a new account form that evidences this request.) In general, most clients are residents of the State of Ohio, while a few live in multiple locations largely dependent on the different seasons of the year.

FCI's clientele could be categorized as individuals, businesses and trusts. The services offered to each may vary and is largely dependent upon the client's unique circumstances. Financial Counseling, Inc. has

each client execute an independent agreement and each agreement offers services separately to each individual client.

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

Advisor offers clients an investment service called Strategic Asset Management (SAM), which is generally managed according to the principles of asset allocation. This service attempts to optimize the risk/reward profile of a client's portfolio by investing among several asset classes based upon a client's personal financial goals and risk preferences. Below is a brief description of the type of general strategies that may be used as guidelines by investment advisor representatives in structuring accounts with varying objectives.

#### **Strategic Asset Management Program (SAM)**

**Conservative Income allocation.** A conservative income portfolio usually seeks to generate income as its primary objective and preserve initial investments as its secondary objective. Conservative income portfolios tend to invest in a mix of income producing investments with a low degree of volatility. A typical conservative income portfolio may consist of about 20% in equity asset classes, and 80% in income asset classes, including fixed income and/or cash equivalents.

**Balanced Allocation.** A balanced portfolio usually has both capital preservation and growth as its primary objectives. Balanced portfolios tend to invest in a relatively equal mix of low to moderate risk securities. A typical balanced portfolio may consist of about 60% in equity asset classes and 40% in fixed income and/or cash/cash equivalents.

**Growth Allocation.** A growth portfolio usually seeks to generate long-term capital gains as its primary objective. Growth portfolios tend to invest in a mix of investments with potential for long-term capital appreciation with a more than moderate amount of volatility. A typical growth allocation consists of about 80% equity and 20% in fixed income and/or cash/cash equivalents.

**All-Equity Allocation.** An all-equity growth portfolio usually seeks to generate long-term capital gains as its primary objective. All Equity portfolios are aggressive portfolios and tend to invest in assets that may be considered high risk and tend to have more volatility. These portfolios may have the potential for higher returns over the long-term. A typical all-equity portfolio consists of about 98% in equity asset classes with only about 2% in cash/cash equivalents.

Since client portfolios are designed to be managed in accordance with the financial circumstances, investment objectives, and preferences of individual clients, the actual asset allocation of a particular account may differ from other client accounts with similar objectives or levels of risk. Asset allocation is driven by various mathematical computations, and is more complex than the concept of asset

diversification. It should be recommended that no strategy or allocation formula can guarantee a gain, or assume that an account will suffer a loss.

The program is designed to offer clients a diversified long-term approach to their personal investment goals and objectives. It is important that you keep your investment advisor representative informed as to any changes in your financial situation. This service provides clients with individualized investment portfolio management services, including account review and investment recommendation. Selected investments may include: stocks, bonds, mutual funds and other securities.

### **Active Management Program (AMP)**

Advisor offers a service to clients called the Active Management Program (AMP) pursuant to an agreement between Advisor and the client. AMP is a program designed to reposition or reallocate the client's assets based on information obtained from multiple research services. The advisor through a comprehensive client interview including a discussion of the client's stated investment objectives, financial condition, tax situation, time horizon and risk tolerance will select a model that he believes to be the most suitable after analyzing the gathered data.

Asset allocation and security selection decisions are then made with the aid of computer models that are labeled with investment objectives: Growth, Moderate, Conservative or Bond focused. The portfolio of models may already exist or if the Advisor deems necessary, a new model portfolio may be constructed for the client individually. The model portfolios are often comprised of multiple asset categories and sectors and have the ability to perform multiple styles of asset allocation including ranges from 100% equity exposure to 100% cash exposure. Investment overlap and diversification are key components to the investment portfolio design.

While the typical asset allocation elected by a large majority of the investment advisory community would include Large Cap, Mid Cap, Small Cap, Bonds and International segments. Our growth model processes often evaluate all of those, but also may include special sectors like: financials, global/foreign, gold, commodities, natural resources, technology, health care, real estate, region specific/country specific, utilities, world bonds and more... thus allowing the models to select risk appropriate positions from a large population of investment opportunities.

Once the initial asset allocation model is determined, assets may be reallocated at any point in time as appropriate. Trading in these accounts may occur as frequently as weekly or monthly, but typically specific position changes occur every 30 to 150 days. Positions may be left intact for long periods of time if deemed appropriate by Advisor. Reallocation of assets will trigger taxable events except where IRA accounts, 401(k), 403(b) accounts or other qualified retirement plans or accounts are involved.

There are substantial risks involved by investing in securities. It is the client's responsibility to read and review the monthly/quarterly statements and provide feedback as to their comfort or lack thereof with the then current asset allocation of their individual portfolio(s). Our method of investing is "active", so the allocation that exists one day or one week may not be representative of the allocation the following

day, week, month or quarter. Therefore, we recommend establishing an electronic access to the custodian who holds or custodies your securities and provides monthly or quarterly statements. The electronic access will allow clients to view the account as frequently as they like and will offer a more recurrent analysis of the portfolio's progress.

Additionally, there are complexities and risks associated with trading securities including, but not limited to: execution or trading errors, price volatility, bid/ask spreads, order types (such as "market" and "limit" orders), deviation from net asset value and "execution price slippage" caused by lack of order or book depth. This is commonly seen in some of the more thinly traded stocks or ETFs that don't usually experience a lot of daily trading volume. An example of such a dilemma was the "flash crash" that the market experienced on May 6, 2010. On that day the Dow Jones Industrial Average plunged about 900 points only to recover those losses later in the trade day. It was the second largest point swing, 1010.14 points, and the biggest one-day decline, 998.50 points, on an intraday basis in Dow Jones Industrial Average History.<sup>1</sup> At current, Financial Counseling, Inc. heavily focuses on mutual funds that trade once per day, this helps minimize problems associated with industry intra-day price deficiencies. Exchange-traded funds (ETFs) are another tool that can be used by FCI to "actively" manage client accounts, but the price execution risk is much higher with ETFs than mutual funds, because their price fluctuates like a stock and can be traded multiple times per day.

Use of leverage funds in a client's portfolio often adds risk to the portfolio. Leveraged funds, which use futures and options to amplify returns, try to return two to three times the daily returns of a particular index. Financial Counseling, Inc. does not usually recommend leveraged funds to the general public as they are volatile positions that can move quickly and materially affect a client's account value causing extensive damage to a portfolio. However, due to the liquidity that is often found as a characteristic of leveraged funds, FCI may from time to time purchase leveraged bond funds that contain 1.2 times or more the movement of the respective bond index. The use of such leverage is often conducted to accommodate specific liquidity needs of the client or to activate new investment assets that have been transferred into the client's portfolio. Other leveraged sector funds could be used to accommodate liquidity issues as well, but the time frame for holding those volatile positions would likely be short.

Clients have the right to place a restriction on their account that would not allow the use of leveraged investments in their portfolio. That restriction request must be performed in writing. However, this restriction would not require the Advisor to know how the individual fund invests internally. Many mutual funds use options, futures and derivative instruments to invest public clients' assets. This restriction would merely cause the Advisor to stay away from funds that market an investment strategy that is designed to amplify the returns of an index in a leveraged fashion.

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<sup>1</sup> [http://en.wikipedia.org/wiki/2010\\_Flash\\_Crash](http://en.wikipedia.org/wiki/2010_Flash_Crash)

## *Material Risks*

Risk can be best defined as uncertainty or not knowing what is going to happen to your investment.

Clients considering investments should consider various risks including the following:

- **Interest Rate Risk** – This is the variability in a security's return resulting from changes in the level of interest rates. Such changes affect all securities inversely. Interest rate risk affects bonds more directly than common stocks, and is a major risk faced by all bondholders. As interest rates change, bond prices change in an inverse direction.
- **Market Risk** – Market risk is the variability in returns due to fluctuations in the overall market – that is, the aggregate stock market. All securities are exposed to market risk, although it affects primarily common stocks. Market risk includes a wide range of factors outside of securities themselves, including recessions, wars, structural changes in the economy, and changes in consumer preferences.
- **Inflation Risk** – A factor affecting all securities is the chance that the purchasing power of invested dollars will decline. With uncertain inflation, the real (inflation-adjusted) return involves risk even if the nominal return is historically safe, as in – for example – a US Treasury bond.
- **Business Risk** – The risk of doing business in a particular industry or environment is called business risk.
- **Financial Risk** – Financial risk is associated with debt financing by companies. The larger proportion of assets financed by debt (as opposed to equity), the larger the variability in the returns. Financial risk involves the concept of financial leverage.
- **Liquidity Risk** – This is the risk associated with the particular secondary market in which a security trades. An investment that can be bought or sold quickly and without significant price concession is considered liquid. The more uncertainty about the time element and the price concessions, the greater the liquidity risk. A Treasury bill has little or no liquidity risk whereas a very small stock may have substantial liquidity risk.

## *Item 9 – Disciplinary Information*

Registered Investment Advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to one's evaluation of Financial Counseling, Inc. or the integrity of FCI's management (and each supervised person providing investment advice). Financial Counseling, Inc. has no information applicable to this item regarding the firm or its principal owner and advisor, Stevan M. Vaughan, or the rest of the Investment Advisory Representative (IAR) staff.

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

Financial Counseling, Inc. does not have other industry activities or affiliations, but some of the Investment Advisor Representatives who are registered with Financial Counseling, Inc. are also

registered representatives of Fintegra Financial Solutions, Inc., a registered broker/dealer, member FINRA/SIPC. As such, members who are dually registered must adhere to both the FINRA rules and guidelines as implemented and enforced by the broker/dealer in addition to the State or Federal investment advisory rules and guidelines. The economic benefit that these dually licensed representatives can achieve is the ability to gain a commission in addition to or in lieu of the potential investment advisory fees. This can create a conflict of interest that should be disclosed to the client prior to the sale of any security.

As such, Financial Counseling, Inc. tries to segregate its investment advisory business from its commission business. This is often achieved by utilizing custodial platforms such as TD Ameritrade Institutional. When accounts are opened at TD Ameritrade they are handled strictly on a fee basis. All mutual fund securities trades at TD Ameritrade are conducted at net-asset-value (NAV), which means no commissions can be generated or received by the Advisor. Additionally, commissions called trail commissions or 12b-1 fees are not paid to the Advisor under the TD Ameritrade custodial platform. So, the TD Ameritrade platform can be truly considered a fee only program by FCI. However, if ETFs or other securities transactions are placed at TD Ameritrade ticket charges or transaction costs are issued. Those charges are levied by TD Ameritrade and IARs do not share in any portion of the ticket charges to execute transactions through TD Ameritrade.

Depending of the client's needs, annuities might be appropriate for the living benefit riders or the tax deferred nature of the investment vehicle. The companies that offer annuity products are numerous and the features of each product are often complex. Additionally, the methods of compensation vary per Annuity Company, but they often involve a commission payment to compensate the registered representative for learning and marketing the product. These commissions can be sizable and may induce a conflict of interest. When clients are found to have a need that may be best served with an annuity, the compensation of any such commission is evaluated and is considered when charging investment advisory fees.

### *Item 11 – Code of Ethics*

Financial Counseling, Inc. has created a code of ethics that is designed to help educate and monitor the business conduct of our office staff. The code emphasizes the firm's fiduciary duty to clients and produces a heavy burden on the staff to maintain client confidentiality. A copy of the code of ethics is available to clients or prospective clients upon request.

Stevan M. Vaughan or other employees of Financial Counseling, Inc. may occasionally buy or sell securities for their own accounts. The firm may or may not recommend these securities to clients since recommendations vary according to an individual client's specific needs and circumstances. Additionally, staff members may use computer models that will actively allocate and may buy or sell securities without consideration of client holdings. These securities are publicly traded and it is highly

unlikely that transactions in the personal accounts of the firm's employees could adversely affect the price or performance of the securities.

Should an employee become aware of any non-public information regarding a security, it is the firm's policy that the employee not act on such information for his/her own benefit or for the benefit of clients and report the information to Financial Counseling, Inc. management (and the proper regulatory authorities, if warranted).

### *Item 12 – Brokerage Practices*

Financial Counseling, Inc. may recommend brokerage platforms based on trading and technology, the depth and breadth of services, the customer service responsiveness and brokerage transaction costs and best execution records. Currently, Financial Counseling, Inc. often recommends the TD Ameritrade Institutional platform as its main brokerage/custodian. Such recommendation is based on the history and experience that Financial Counseling, Inc. has established with TD Ameritrade, but also due to the continued industry leadership and best execution practices they display in ongoing performance.

Financial Counseling, Inc. has investment advisor representatives who are also registered with Fintegra Financial Solutions, Inc., a registered broker/dealer, member FINRA/SIPC. Brokerage services are offered by Fintegra that have the potential to generate commission to the registered representative/IAR. These accounts are often used to hold longer term buy and hold stock or individual issue bonds, but may include mutual funds that pay loaded commissions and 12-b1 fees. These accounts also contain ticket charges and other fees that are paid by the client. The Fintegra relationship is helpful on multiple levels including compliance and processing direct mutual fund or variable annuity business.

### *Item 13 – Review of Accounts*

The reviews of client accounts in the Financial Counseling, Inc. program are performed periodically and/or at least quarterly. These reviews will encompass performance evaluation, asset allocation analysis and customer suitability review. The triggering factors for evaluation may include, but are not limited to: change in product composition, change in market condition, change in management philosophy, change in client's financial condition, and any other change of which client apprises the Advisor. Levels of review include: summary review of account statements; in-depth review of statements, objectives and current performance. The client may be invited to attend a detailed review involving a meeting to discuss any and all related investment strategy and/or future planning. Stevan M. Vaughan conducts the review process, with occasional assistance from other office staff. The role of the office staff is largely administrative in gathering the material for review.

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

Financial Counseling, Inc. occasionally enters into referral/solicitor agreements. At current, there is only one relationship where FCI compensates one individual, who happens to be another investment advisor, who sent a high net worth client to Financial Counseling, Inc. as a referral. As such, that other investment advisor is paid on a quarterly basis a portion of the investment advisory fee. This fee is paid in accord with various regulatory guidelines. Client's who are referred to FCI pay the same level of advisory fees as clients of FCI that were not attained through a referral relationship.

#### *Item 15 – Custody*

In 2010, the Securities Exchange Commission (SEC) adopted amendments to Rule 206(4)-2 (the "Custody Rule") under the Investment Advisers Act of 1940 (the "Advisers Act") which governs custody arrangements for registered investment advisers. Prior to that amendment FCI, due to various "No Action" letters and safe harbor provisions issued by the SEC, was deemed to not have custody of client funds. However, after the amendment in 2010, the billing practices of Financial Counseling, Inc. are now considered to create a form of custody since advisory fees can be deducted directly from client accounts. This form of custody is very limited. Financial Counseling, Inc. is not permitted to take control of any client assets or transfer client assets to or from a client's account unless directed or authorized by the client to do so. FCI does not take possession of client securities or assets. They are held at places like TD Ameritrade Institutional that meet the standards and requirements that include providing statements to all clients that reflect their securities activity during a given quarter.

Financial Counseling, Inc. is not affiliated with any custodial services and is "operationally independent" from any custodian that generates statements for clients. As such, Financial Counseling, Inc. merely performs the calculation of the fees and supplies that information to the custodian, who in-turn debits the fee and reports the activity on the statement. While the act of debiting the fee directly from the client account meets the new definition of custody as amended by the SEC in their 2010 amendment notice for rule 206(4)-2 under the Investment Advisers Act of 1940; the SEC carved out a provision in the rule change that exempted firms from an annual surprise audit on its books and records, if they merely met the definition of having custody due to the ability to deduct the fee from the client(s) account. The basic provisions for the exemption that Financial Counseling, Inc. and its members adhere to are:

- Maintain accounts at a "qualified custodian", institutions to which clients and advisers customarily turn for custodial services.
- Those custodians are subject to regulations and oversight.
- Financial Counseling, Inc. maintains a reasonable belief that the qualified custodians send statements directly to advisory clients.

These requirements are designed so that advisory clients will receive a statement from the qualified custodian and have the opportunity to compare and contrast with any statements or other information

they receive from their advisor to determine whether account transactions, including deductions to pay advisory fees, are proper. While Financial Counseling, Inc. often provides individual account assessments for clients on a quarterly basis, FCI is operationally independent from TD Ameritrade Institutional and other custodians. As such, we urge clients to compare the documentation provided directly from Financial Counseling, Inc. to the statements provided from the independent custodians.

#### *Item 16 – Investment Discretion*

Financial Counseling, Inc. develops active investment management portfolios. The most efficient way to execute this kind of modeling technology is through the use of discretionary authority to place trades prior to receiving instruction or confirmation from each client. The discretionary authority granted to Financial Counseling, Inc. when a client enters the client agreement is limited. The authority limits the discretion to purchases and sales within the account. Financial Counseling, Inc. members have no authority to transfer assets to or from accounts, other than when deducting fees on a quarterly basis. Therefore, the discretion is limited and may be canceled by the client at any time. However, the cancelation of the discretionary authority would likely necessitate the client being removed from the active management program.

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

Financial Counseling, Inc. does not vote proxies on behalf of clients. The proxies are sent from the custodian or Investment Company directly to the client's address of record. The client is welcome to vote proxies as they see fit. Financial Counseling, Inc. does not make recommendations as to how or for whom to vote.

#### *Item 18 – Financial Information*

Registered Investment Advisors are required in this item to provide you with certain financial information or disclosures about FCI's financial condition. Financial Counseling, Inc. has no financial commitment that impairs its ability to meet its financial obligations and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

#### *Item 19 – Requirements for State-Registered Advisers*

If this disclosure brochure was not delivered to the client at least 48 hours prior to the client entering into any written or oral advisory agreement with this investment advisor, then the client has the right to terminate the agreement without penalty within five business days after entering into the agreement. For the purposes of this provision, an agreement is considered entered into when all parties to the agreement have signed the agreement, or in the case of an oral agreement otherwise signified their acceptance.

## *Educational Background and Business Experience*

Arvin M. Vaughan – DOB 4/15/1939. Graduate Marshall University, Huntington, WV-1962  
BA Degree in Pre Law (Political Science).

American College-Chartered Life Underwriter (CLU)-1976

American College-Charter Financial Consultant (ChFC)-1987

College of Financial Planning-Certified Financial Planner (CFP)-1987

Jan. 1980-Feb. 1981 President, Financial Counseling, Inc.-Dayton OH

Feb. 1981-Feb. 1982 Sr. Financial Consultant-Shearson, Loeb, Rhodes-Dayton OH

Feb. 1982-Dec. 1983 Registered Rep-Chubb Securities Corp.-Atlanta GA

Dec. 1983-Nov. 1988 Registered Rep-FSC Securities Corp.- Atlanta GA

Nov. 1988-Nov. 1989 Registered Rep-Investacorp, Inc., -Miami Lakes FL

Nov. 1989-Dec. 1992 Registered Rep-IFG Network Securities-Atlanta GA

Dec. 1992-June 1999 Registered Rep-IFG Network Securities-Atlanta GA

Dec. 1983-Present Office Financial Counseling, Inc.-Dayton OH

August 1989-May 1990 V.P. Marketing-Investors Financial Group-Atlanta GA

June 1999-2004 Registered Rep-Securities Service Network, Inc. Knoxville TN

June 2004-June 2008 Registered Rep- Questar Capital Corporation, Ann Arbor, MI

December 2000- June 2008 Chairman of Financial Counseling, Inc. –Dayton OH

June 2008 – Present, Investment Advisor Representative, Financial Counseling, Inc.

Stevan M. Vaughan – DOB 02/20/1962. Graduate oral Roberts University, Tulsa OK-1987

BA Degree in Theological and Historical Studies

Institute of Certified Fund Specialists-Certified Fund Specialist (CFS)

Jan. 1989-Sept. 1989 Youth Pastor-Hillside Chapel Church-Beavercreek OH

Sept. 1989-June 1993 Teacher-Dayton Christian High School-Dayton OH

June 1993- December 2000 Vice President Financial Counseling, Inc.-Dayton OH

June 1999- 2004 Registered Rep-Securities Service Network, Inc. Knoxville, TN

June 2004-June 2008 Registered Rep- Questar Capital Corporation, Ann Arbor, MI

June 2008-Present Registered Rep – Fintegra Financial Solutions, Minneapolis, MN

December 2000- Present, President of Financial Counseling, Inc. –Dayton OH

Scott W. Simons – DOB 9/19/1978. Graduate Cedarville University, Cedarville, OH-2001

BA Degree in Organizational Communications

Certified Financial Planner Board of Standards Inc.-CERTIFIED FINANCIAL PLANNER™ - 2008

Oct. 2001-Dec. 2002 Business Sales Account Executive-Qwest Business Sales

Dec. 2002-Feb. 2005 Office Manager-Fifth Third Bank

Feb. 2005-Apr. 2006 Banking Center Manager-Fifth Third Bank

Apr. 2006-June 2008 Registered Rep-Questar Capital, Inc.

June 2008-Present Registered Rep-Fintegra Financial Solutions, Minneapolis, MN

Apr. 2006-Present Investment Advisor Representative -Financial Counseling, Inc.

Douglas Jared Moore – DOB 05/25/1978

Graduate Asbury College, Wilmore, KY 2000

BA Degree in Business Management

Institute of Business and Finance – Certified Fund Specialist (CFS)

August 2000 – Present Research Analyst Financial Counseling, Inc., Dayton, OH

August 2007 – June 2008, Registered Rep – Questar Capital Corp., Minneapolis, MN

June 2008 – Present, Registered Representative, Fintegra Financial Solutions, Minneapolis, MN  
*Supervision conducted internally at Financial Counseling, Inc.*

Stevan Vaughan is the Chief Compliance Officer and is responsible for monitoring the daily activities and work produced by the IARs and employees of Financial Counseling, Inc. He works closely with the office staff conducting routine checks and balances. These compliance reviews are often conducted throughout the normal course of daily business, but some are more formal, such as the end of year annual audit and various other compliance meetings conducted with and by the broker/dealer. Stevan is responsible for maintaining the code of ethics and other regulatory requirements.

Any potential issue regarding advice, service or processes of Financial Counseling, Inc. should be brought to the attention of the Chief Compliance Officer. This enables Financial Counseling, Inc. to be aware of the situation early in the review process and allows Stevan to take an active role in rectifying any problem or misunderstanding and resolving any potential conflict. Stevan maintains an “open door” policy and welcomes face-to-face meetings and direct phone contact. These are the best means of communication for dialog about any issues that may need to be addressed. Relationships tend to breakdown when there is a lack of communication and Stevan strives to keep the lines of communication open for both positive and negative feedback from clients.

#### *Other Business Activities*

Financial Counseling, Inc. is a registered investment advisor and its sole responsibility is offering fee based investment advice. However, Investment Advisor Representatives (IARs) who are individuals registered with Financial Counseling, Inc. have multiple business activities that are material the securities industry. Many of the IARs registered with Financial Counseling, Inc. are also registered representatives (investment brokers) with a broker/dealer named Fintegra Financial Solutions, Inc. member FINRA/SIPC.

This outside business affiliation allows those registered representatives to make commissions on various securities trades. As such, an inherent conflict of interest may exist. When working with an IAR member of Financial Counseling, Inc. we encourage our clients to ask about the different kinds of compensation that might be made with regard to offering investment advice or brokering a product. While the vast majority of business conducted from this office is performed as fee based advice under FCI, there are times where a commission based product may be suitable and warranted.

#### *Additional Compensation*

As disclosed in previous sections, additional compensation can be earned by members of FCI. Such compensation could include commissions from the purchase or sale of securities or insurance products, and income from outside business activities. Additionally, members of Financial Counseling, Inc. could be invited to due diligence meetings at the request of investment companies or other industry organizations. On occasion, travel reimbursements are made by those companies that extended the

invitation. While these payments would only reimburse travel expenses, the appearance of “pay for production” may exist and as such the potential conflict of interest has been disclosed.

Financial Counseling, Inc. can directly compensate persons for client referrals in accordance with such written agreements as may be entered into between FCI and persons who may solicit. Such agreements between FCI and any solicitor must be disclosed to any prospective advisory client. When a solicitor arrangement has been formed and a client referral has been made, Financial Counseling, Inc. will present the client a Disclosure Statement that informs the client that a payment or multiple payments may be made to the solicitor introducing the client to FCI. The compensation paid by FCI for client solicitations and referrals may include cash payments or, where appropriate, provision for percentage-based fee sharing.

In order to be clear, accounts that are held at TD Ameritrade Institutional do not allow for any commission payments of any kind to be paid to Financial Counseling, Inc. or any of its direct members. These accounts are fee based advisory accounts. The only compensation derived from TD Ameritrade accounts are the quarterly fees that are evidenced on each quarterly statement provided to the client directly from TD Ameritrade.

### *Privacy Policy*

In order to facilitate the servicing of your account, the Advisor may receive nonpublic personal information about you from the following sources:

- Information we receive from you on questionnaires, applications, account opening documents or other forms;
- Information about your transactions with us or others;
- Information we receive from a consumer reporting agency; and
- Information we received from other sources with your consent.

We do not disclose any nonpublic personal information about you to anyone, except as permitted by law. Such disclosure may include the following:

- Disclosures to affiliates, including affiliated service providers (for example, insurance agencies for processing of variable insurance applications on your behalf);
- Disclosures to your chosen broker-dealer firm (for example, to establish a brokerage account on your behalf);
- Disclosures to government agencies, securities regulators and law enforcement officials (for example, for tax reporting, under a court order or to protect our legal rights);
- Disclosures to other organizations, with your consent (for example, other investment advisor firms in order to open a managed account with their firm or the brokerage firm they utilize); and
- Disclosures to other persons you authorize to obtain such information (for example, a CPA who will be preparing your tax return).

The Advisor restricts access to your personal and account information to those of its employees who need to know that information to provide products or services to you. The Advisor maintains physical, electronic, and procedural safeguards to guard your nonpublic personal information.

We will continue to adhere to the privacy policies and practices as described in this notice if you decide to close your account(s) or become an inactive customer.

If you have any questions concerning the Advisor's privacy policies and procedures, please feel free to contact us. Thank you.

Stevan M. Vaughan  
President