

# Disclosure Brochure

**September 12, 2012**

**Item 1      Cover Page**

## **Shapiro Financial Security Group, Inc.**

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of Shapiro Financial Security Group, Inc. (hereinafter "Shapiro Financial"). If you have any questions about the contents of this brochure, please contact Kenneth B. Shapiro at (732) 739-8991. 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 Shapiro Financial Security Group, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Shapiro Financial Security Group, Inc. is a registered investment adviser. Registration does not imply any level of skill or training.

## **Item 2. Material Changes**

This Item discusses only the material changes that have occurred since Shapiro Financial's last annual update dated March 29, 2011.

The recently enacted "Dodd-Frank Wall Street Reform and Consumer Protection Act" established a minimum threshold of \$100 million in assets under management (AUM) for advisors to be registered with and supervised by the Securities and Exchange Commission (SEC). All advisors with less than \$100 million in AUM are required to become registered with state regulators unless certain exceptions are satisfied.

Any advisor currently registered with the SEC with less than \$100 million in AUM has until June 28, 2012 to become registered with the state regulators, but must inform SEC by the end of March 2012 of their intent to withdraw from SEC oversight.

Shapiro Financial Security Group, Inc. was initially registered as an investment advisory firm with the State of New Jersey in 1988, but transitioned in 2008 to registration with the SEC after it surpassed having \$25 million in AUM. The firm has been an SEC registered firm through the beginning of 2012.

The amount of the assets being managed by Shapiro Financial Security Group, Inc. at the end of December 2011 was under the \$100 million revised minimum threshold, and the firm does not meet any of the exceptions to remain registered with the SEC. The firm is, therefore, in process of implementing action steps to become compliant with the new registration rules and transition back to registration with the State of New Jersey by the end of March 2012.

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### Supervised Person Brochure Supplement(s)

See attached.

## Item 4. Advisory Business

Shapiro Financial Security Group, Inc. believes its most important job is to help clients efficiently manage their financial situation, and to work with them in an effort to avoid unnecessary investment mistakes. The firm focuses on balancing the client's emotional concerns, with their need to satisfy targeted financial objectives. Founded by its President, Kenneth B. Shapiro, the firm has been in business since 1982.

The firm registered as an investment advisor with New Jersey in 1988 and transitioned to registration with the SEC in March 2008. The firm is in process of implementing action steps to remain compliant with the new registration rules under the Dodd-Frank legislation and transition back to registration with the State of New Jersey by the end of March 2012. (See Item 1 – Material Changes)

The firm provides financial planning, consulting and investment management services to its clients. Prior to engaging Shapiro Financial to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with Shapiro Financial setting forth the terms and conditions under which Shapiro Financial renders its services (collectively the "*Agreement*"). Shapiro Financial also offers periodic educational seminars/workshops, at no charge, to its clients as part of the ongoing investment advisory service. Additional educational seminars are done ad hoc and compensation for such programs, if any, is determined on an ad hoc basis with the event sponsor on a flat fee basis. Shapiro Financial does not participate in wrap fee programs.

Shapiro Financial has approximately \$44,700,000 of assets under management as of December 31, 2011, all of which are managed on a non-discretionary basis.

This Disclosure Brochure describes the business of Shapiro Financial. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of Shapiro Financial's officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on Shapiro Financial's behalf and is subject to Shapiro Financial's supervision or control.

### **Financial Planning and Consulting Services**

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Shapiro Financial may provide its clients with a broad range of comprehensive financial planning and consulting services. These services include insurance, retirement, employee benefits, investments, education, estate planning, and tax and cash flow needs.

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In performing its services, Shapiro Financial is not required to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. Shapiro Financial may recommend the services of itself and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if Shapiro Financial recommends its own services. The client is under no obligation to act upon any of the recommendations made by Shapiro Financial under a financial planning or consulting engagement or to engage the services of any such recommended professional, including Shapiro Financial itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of the firm's recommendations. Clients are advised that it remains their responsibility to promptly notify Shapiro Financial if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising the firm's previous recommendations and/or services.

The firm may also provide tax preparation services to certain of its advisory clients. Such services are provided pursuant to a separate engagement and for a separate fee, which fee is agreed upon with the client prior to completing the services.

### Investment Management Services

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Clients can also engage Shapiro Financial to manage all or a portion of their assets on a nondiscretionary basis. The firm primarily allocates clients' investment management assets among mutual funds. However, the firm also utilizes exchange-traded funds ("ETFs"), and individual debt and equity securities for certain clients in accordance with their investment objectives. Shapiro Financial may also provide advice about any type of investment held in clients' portfolios, as requested by the client.

Shapiro Financial also may render non-discretionary investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that may not be held by the client's primary custodian. In so doing, Shapiro Financial either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

As detailed in Item 8, Shapiro Financial tailors its advisory services to the individual needs of clients. Shapiro Financial consults with clients initially and on an ongoing basis to determine risk tolerance, time horizon and other factors that may impact the clients' investment needs. The firm ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify Shapiro Financial if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon Shapiro Financial's management services. Clients may impose reasonable restrictions or mandates on the management of their account if, in Shapiro Financial's sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

## Item 5. Fees and Compensation

Shapiro Financial offers its services on a fee basis, which may include hourly and/or fixed fees, as well as fees based upon assets under management.

### Financial Planning and Consulting Fees

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Shapiro Financial charges a fixed fee and/or hourly fee for financial planning and consulting services. These fees are negotiable, but generally range from \$1,500 to \$7,500 on a fixed fee basis and/or from \$55 to \$250 on an hourly rate basis, depending upon the level and scope of the services and the professional rendering the financial planning and/or the consulting services. The firm's typical on-going comprehensive financial planning retainer fee is \$500 to \$2,500. The first payment is generally due at the first meeting, a second payment is due at the second meeting and the balance is due at the third meeting.

Prior to engaging Shapiro Financial to provide financial planning and/or consulting services, the client is required to enter into a written agreement with Shapiro Financial setting forth the terms and conditions of the engagement.

### Investment Management Fee

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Shapiro Financial provides non-discretionary investment management services for an annual fee based upon a percentage of the market value of the assets being managed by the firm. The firm's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. Shapiro Financial does not, however, receive any portion of these commissions, fees, and costs. Shapiro Financial's annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets on the last day of the previous quarter. The annual fee varies depending upon the market value of the assets under management, as follows:

<b><u>PORTFOLIO VALUE</u></b>	<b><u>BASE FEE</u></b>
Up to \$100,000	1.25%
Next \$150,000	1.00%
Next \$250,000	0.80%
Next \$500,000	0.65%
Above \$1,000,000	Negotiable

Certain clients with accounts less than \$50,000 may be charged hourly rates, depending on the client relationship and scope of services to be provided.

Shapiro Financial, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount

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of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

### Fees Charged by Financial Institutions

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As further discussed in response to Item 12 (below), Shapiro Financial generally recommends that clients utilize the brokerage and clearing services of Fidelity Institutional Wealth Services ("*Fidelity*") for investment management accounts.

Shapiro Financial may only implement its investment management recommendations after the client has arranged for and furnished Shapiro Financial with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, *Fidelity*, any other broker-dealer recommended by Shapiro Financial, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "*Financial Institutions*").

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties such as custodial fees, brokerage commissions, transaction fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

Shapiro Financial's agreement with any *Financial Institutions* may authorize Shapiro Financial to debit the client's account for the amount of Shapiro Financial's fee and to directly remit that management fee to Shapiro Financial. Any *Financial Institutions* recommended by the firm have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Shapiro Financial. Clients may not elect to have the firm send them an invoice for payment.

### Fees for Management During Partial Quarters of Service

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For the initial period of investment management services, the fees are calculated on a *pro rata* basis.

The *Agreement* between Shapiro Financial and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. Shapiro Financial's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to Shapiro Financial's right to terminate an account. Additions may be in cash or securities provided that Shapiro Financial reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to Shapiro Financial, subject to the usual and customary securities settlement procedures. However, the firm designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment

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objectives. Shapiro Financial may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

Adjustments to fees will be reflected in the subsequent quarter for new funds transferred into an account or for funds withdrawn during the billing period.

Fees will be drafted from authorized accounts at the beginning of each quarter, based upon account balances on the first day of each quarter. Adjustments to fees will be reflected in the subsequent quarter for new funds transferred into an account or for funds withdrawn during the billing period.

The professional relationship is fully terminable at will by either applicant or client. Upon thirty (30) days written notice, a full refund of all unapplied fees will be made by applicant to the client. Investment Advisor fees for accounts closed during a quarter will be based upon the greater of actual days in account during the final quarter or a minimum of days to midpoint of quarter. Clients will receive a refund at beginning of subsequent quarter for excess fees collected during final quarter.



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

Shapiro Financial does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client. Side-by-side management refers to advisers who manage client accounts that pay performance-based fees as well as accounts that do not pay such fees.

## Item 7. Types of Clients

Shapiro Financial generally provides its services to individuals. However, the firm may also provide advice to pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

### Minimum Fee

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As a condition for starting and maintaining a relationship, Shapiro Financial generally imposes a minimum annual fee of \$500. This minimum fee may have the effect of making the firm's service impractical for clients, particularly those with portfolios less than \$40,000 under the firm's management. Shapiro Financial, in its sole discretion, may waive its minimum annual fee based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities.

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

### Investment Strategies and Methods of Analysis

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Shapiro Financial believes that risk management is an integral part of the financial planning process. The firm is of the opinion that the best plans should be structured to protect against unexpected or undesirable events. Shapiro Financial first conducts an initial assessment with the client taking into consideration risk tolerance, time horizon and other factors that may impact the clients' investment needs. The firm seeks to ensure that clients' investments are suitable for their goals and objectives. Shapiro Financial generally prefers to provide financial planning services as part of its overall investment management process.

As stated in Item 4, Shapiro Financial's comprehensive financial planning services may include a review of the client's insurance, retirement, employee benefits, investments, education, estate planning, and tax and cash flow needs.

To implement the financial plan, clients can engage the firm on a non-discretionary basis. Shapiro Financial designs an investment strategy aimed at meeting the client's particular needs and risk tolerances. The firm takes an inventory of the client's investable assets, reviews cash or liquidity needs, and discusses short and long-term goals. An appropriate mix of available investments will then be chosen with a focus on income and growth objectives, while providing flexibility to deal with unexpected events.

Shapiro Financial primarily allocates clients' assets among mutual funds. The firm may also utilize ETFs and individual stocks and fixed income as necessary. Shapiro Financial generally only chooses mutual funds that have been in existence for at least three years, and prefers to work with fund companies with a longer tenure of consistent management personnel. However, the firm will use mutual funds with less than a three year track record if there is a compelling reason to do so (e.g., the manager of a new fund is also the manager of another fund with a three year track record).

The firm believes that a properly diversified portfolio has less risk than owning individual stocks alone. Mutual funds offer professional management and diversification. A balanced mutual fund portfolio spreads risk among many stocks, industries and asset classes, which should lower the overall risk of a portfolio.

The portfolio risk may be further reduced by properly blending a mix of equity, fixed income securities, and short-term cash positions. Fixed income instruments can provide predictability of income, and allows the firm to structure a portfolio to target specific cash flow needs. Shapiro Financial aims to accomplish this by building a laddered fixed income portfolio with bonds maturing on a quarterly/annual basis. For larger portfolios, Shapiro Financial may use individual bonds and certificates of deposit in place of, or in addition to bond mutual funds.

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Shapiro Financial's primary method of analysis is fundamental. Fundamental analysis involves the fundamental financial condition and competitive position of a company. Shapiro Financial will analyze the financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors in order to determine the recommendations made to clients. The primary risk in using fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

Overall, Shapiro Financial believes a steady, lower risk approach to investing is the best way to help clients reach their goals.

### Risks of Loss

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#### *Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more).

#### *Market Risks*

The profitability of a portion of Shapiro Financial's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that Shapiro Financial will be able to predict those price movements accurately.

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### *Management Through Similarly Managed Accounts*

For certain clients, Shapiro Financial may manage portfolios by allocating portfolio assets among various mutual funds on a non-discretionary basis using one or more of its proprietary investment strategies (collectively referred to as “*investment strategy*”). In so doing, Shapiro Financial buys, sells, exchanges and/or transfers shares of mutual funds based upon the *investment strategy*.

Shapiro Financial's management using the *investment strategy* complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides similarly managed accounts, such as the *investment strategy*, with a safe harbor from the definition of an investment company.

The *investment strategy* may involve an above-average portfolio turnover that could negatively impact upon the net after-tax gain experienced by an individual client. Securities in the *investment strategy* are usually exchanged and/or transferred without regard to a client's individual tax ramifications. Certain investment opportunities that become available to Shapiro Financial's clients may be limited. For example, various mutual funds or insurance companies may limit the ability of Shapiro Financial to buy, sell, exchange or transfer securities consistent with its *investment strategy*. As further discussed in response to Item 12 (below), Shapiro Financial allocates investment opportunities among its clients on a fair and equitable basis.

### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

## **Item 9. Disciplinary Information**

Shapiro Financial is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. Shapiro Financial does not have any required disclosures to this Item.

## Item 10. Other Financial Industry Activities and Affiliations

Shapiro Financial is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. Shapiro Financial has described such relationships and arrangements below.

### Receipt of Insurance Commission

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Certain of Shapiro Financial's *Supervised Persons*, in their individual capacities, are also licensed insurance agents with various insurance companies, and in limited circumstances, may recommend, on a fully-disclosed commission basis, the purchase of certain insurance products. While Shapiro Financial does not sell such insurance products to its investment advisory clients, the firm does permit its *Supervised Persons*, in their individual capacities as licensed insurance agents, to sell insurance products to its investment advisory clients. A conflict of interest exists to the extent that Shapiro Financial recommends the purchase of insurance products where Shapiro Financial's *Supervised Persons* receive insurance commissions or other additional compensation.

### Tax Preparation Services

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As stated in Item 4, Shapiro Financial may provide tax preparation and accounting/bookkeeping services to its clients. Such services are provided pursuant to a separate engagement and for a separate fee.

## Item 11. Code of Ethics

Shapiro Financial and persons associated with Shapiro Financial ("Associated Persons") are permitted to buy or sell securities that it also recommends to clients consistent with Shapiro Financial's policies and procedures.

Shapiro Financial has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws ("*Code of Ethics*"). In accordance with Section 204A of the Investment Advisers Act of 1940 (the "Advisers Act"), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by Shapiro Financial or any of its associated persons. The *Code of Ethics* also requires that certain of Shapiro Financial's personnel (called "*Access Persons*") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in Shapiro Financial's *Code of Ethics*, none of the firm's *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of Shapiro Financial's clients.

When Shapiro Financial is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Shapiro Financial is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact Shapiro Financial to request a copy of its *Code of Ethics*.



## Item 12. Brokerage Practices

As discussed above, in Item 5, Shapiro Financial generally recommends that clients utilize the brokerage and clearing services of *Fidelity*.

Factors which Shapiro Financial considers in recommending *Fidelity* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. *Fidelity* enables Shapiro Financial to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by *Fidelity* may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by Shapiro Financial's clients comply with Shapiro Financial's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where Shapiro Financial determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Shapiro Financial seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Shapiro Financial periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct Shapiro Financial in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and Shapiro Financial will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by Shapiro Financial (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Shapiro Financial may decline a client's request to direct brokerage if, in Shapiro Financial's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless Shapiro Financial decides to purchase or sell the same securities for several clients at approximately the same time. Shapiro Financial may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Shapiro Financial's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among Shapiro Financial's clients pro rata to the purchase and sale orders placed for each

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client on any given day. To the extent that Shapiro Financial determines to aggregate client orders for the purchase or sale of securities, including securities in which Shapiro Financial's *Supervised Persons* may invest, Shapiro Financial generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Shapiro Financial does not receive any additional compensation or remuneration as a result of the aggregation. In the event that Shapiro Financial determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, Shapiro Financial may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

### Software and Support Provided by Financial Institutions

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Shapiro Financial may receive from *Fidelity*, without cost to Shapiro Financial, computer software and related systems support, which allow Shapiro Financial to better monitor client accounts maintained at *Fidelity*. Shapiro Financial may receive the software and related support without cost because Shapiro Financial renders investment management services to clients that maintain assets at *Fidelity*. The software and related systems support may benefit Shapiro Financial, but not its clients directly. In fulfilling its duties to its clients, Shapiro Financial endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Shapiro Financial's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence Shapiro Financial's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Additionally, Shapiro Financial may receive the following benefits from *Fidelity* through the Fidelity Institutional Wealth Services Group: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its Institutional Wealth Services Group participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

### **Item 13. Review of Accounts**

For those clients to whom Shapiro Financial provides investment management services, Shapiro Financial monitors those portfolios as part of an ongoing process while regular account reviews are generally conducted on at least a quarterly basis. For those clients to whom Shapiro Financial provides financial planning and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by one of Shapiro Financial’s investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with Shapiro Financial and to keep Shapiro Financial informed of any changes thereto. Shapiro Financial contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client’s financial situation and/or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom Shapiro Financial provides investment management services will also receive a report from Shapiro Financial that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance as clients may request from time to time. Clients should compare the account statements they receive from their custodian with those they receive from Shapiro Financial.

Those clients to whom Shapiro Financial provides financial planning and/or consulting services will receive reports from Shapiro Financial summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by the firm.

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

Shapiro Financial may receive economic benefits from non-clients for providing advice or other advisory services to clients. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12, above.

In addition, Shapiro Financial is required to disclose any direct or indirect compensation that it provides for client referrals. If a client is introduced to Shapiro Financial by either an unaffiliated or an affiliated solicitor, Shapiro Financial may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act and any corresponding state securities law requirements. Any such referral fee is paid solely from Shapiro Financial's investment management fee, and does not result in any additional charge to the client. If the client is introduced to Shapiro Financial by an unaffiliated solicitor, the solicitor provides the client with a copy of Shapiro Financial's written disclosure brochure which meets the requirements of Rule 204-3 of the Advisers Act and a copy of the solicitor's disclosure statement containing the terms and conditions of the solicitation arrangement including compensation. Any affiliated solicitor of Shapiro Financial discloses the nature of his/her relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of Shapiro Financial's written disclosure brochure at the time of the solicitation.

## Item 15. Custody

Shapiro Financial's *Agreement* and/or the separate agreement with any *Financial Institution* may authorize Shapiro Financial through such *Financial Institution* to debit the client's account for the amount of Shapiro Financial's fee and to directly remit that management fee to Shapiro Financial in accordance with applicable custody rules.

The *Financial Institutions* recommended by the firm have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Shapiro Financial. In addition, as discussed in Item 13, Shapiro Financial also may send periodic supplemental reports to clients, as requested by the client. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from Shapiro Financial.

**Item 16. Investment Discretion**

Shapiro Financial is required to disclose if it accepts discretionary authority to manage securities accounts on behalf of clients. Shapiro Financial is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. Shapiro Financial does not exercise discretion on behalf of clients.

## **Item 17. Voting Client Securities**

Shapiro Financial is required to disclose if it accepts authority to vote client securities. Shapiro Financial does not vote client securities on behalf of its clients. Clients receive proxies directly from the *Financial Institutions*. Clients are encouraged to contact Shapiro Financial with questions regarding particular solicitations they have received.

**Item 18. Financial Information**

Shapiro Financial does not require or solicit the prepayment of more than \$500 in fees for investment advisory services six months or more in advance. As previously disclosed, Shapiro Financial may accept fees for financial planning services in advance.

Shapiro Financial has not been subject to any bankruptcy proceedings during the past ten years.



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

Kenneth B. Shapiro, CPA/PFS, CFP, born in 1955, had completed his Degrees in Accounting, 1975 and Master of Business Administration – Finance, 1978. He received his CPA license in 1982, his Certified Financial Planner license in 1984, his NASD Series 2 license in 1988, his Personal Financial Specialist certification in 1996 and his NJ Life & Health Insurance licenses in Nov. 2002. He is the President of Shapiro Financial Security Group, Inc. and has owned and operated this entity since December 1982.

Mr. Shapiro is also actively engaged as a certified public accountant as well as a certified financial planner as indicated in Item 10 – Other Financial Industry Activities and Affiliations. He divides his time between investment management and the accounting/financial planning work equally.

Shapiro Financial is not compensated for advisory services with performance-based fees. Please refer to page six in this brochure for the current Investment Management Fee schedule.

Mr. Shapiro has not been involved in nor awarded or found liable in any arbitration claims, civil, self-regulatory organization or administrative proceeding.

Please refer to Item 5 for information regarding Shapiro Financial's relationship with the "Financial Institutions" indicated in the section.

**Shapiro Financial Security Group, Inc.**

*a Registered Investment Adviser*

1 Bethany Road, Bldg 6, Suite 90

Hazlet, NJ 07730 (732) 739-8991

[www.shapirofsg.com](http://www.shapirofsg.com)

# Brochure Supplement

**September 12, 2012**

**Item 1      Cover Page**

**Kenneth B. Shapiro, President**

Shapiro Financial Security Group, Inc.  
A Registered Investment Adviser

1 Bethany Road, Bldg 6, Suite 90  
Hazlet, NJ 07730

(732) 739-8991  
[www.shapirosfg.com](http://www.shapirosfg.com)

This brochure supplement provides information about Kenneth B. Shapiro that supplements the Shapiro Financial Security Group, Inc. brochure attached hereto. If that brochure is not attached, please contact us at (732) 739-8991.

Additional information about Kenneth B. Shapiro is available on the SEC's website at [www.advisorinfo.gov](http://www.advisorinfo.gov).

## **Item 2            Educational Background and Business Experience**

Kenneth B. Shapiro, President, born 1955

### **Education**

1975 B.S., Accounting, Rider College, NJ

1978 M.B.A., Finance, Rutgers University, NJ

1982 CPA license – passed four part national exam and satisfied work requirement, maintains license by completing mandatory continuing education classes each license period

1984 CFP license – passed comprehensive national exam and satisfied work requirement, maintains license by completing mandatory continuing education classes each license period

1988 NASD Series 2 license – passed comprehensive national exam

1996 Personal Financial Specialist certification – received from CPA and maintains this portion of license by completing mandatory continuing education classes each license period

2002 Life & Health Insurance licenses, NJ – passed comprehensive state exams and maintains license by completing mandatory continuing education classes each license period

### **Business Experience**

Shapiro Financial Security Group, Inc.

1 Bethany Road, Bldg. 6 - Suite 90, Hazlet, NJ 07730

Investment advisory and financial planning services

1982 – Present President

Mr. Shapiro is also actively engaged in business as a certified public accountant as well as a certified financial planner as indicated in Disclosure Brochure Item 4 – Advisory Business and in Item 10 – Other Financial Industry Activities and Affiliations.

## **Item 3            Disciplinary Information**

There is no disciplinary information involving Kenneth B. Shapiro that may be deemed material to be reported under this item.

## **Item 4            Other Business Activities**

Kenneth B. Shapiro does not engage in any other business or occupation. Part of Kenneth B. Shapiro's services at Shapiro Financial Security Group, Inc. involves providing financial planning and consulting services, as described in the firm's Form ADV Part 2A Brochure, Item 4.

## **Item 5            Additional Compensation**

Kenneth B. Shapiro does not receive any additional compensation.

## **Item 6            Supervision**

All personnel of Shapiro Financial Security Group, Inc., including directors, officers, and employees, must put the interests of the clients before their own personal interests and must act honestly and fairly in all respects in dealings with clients. All personnel of Shapiro Financial Security Group, Inc. must also comply with all federal securities laws. Each employee is required to abide by the firm's Code of Ethics and to conform to the firm's compliance policies and procedures, all of which are designed to maintain our high ethical standards. All Shapiro Financial Security Group employee activities are monitored by the Chief Compliance Officer.

The firm's Chief Compliance Officer is Kenneth B. Shapiro, whose telephone number is (732) 739-8991.

As the firm's Chief Compliance Officer is also its principal employee and President, certain supervisory procedures will necessarily be ineffective. However, the firm strictly adheres to its compliance policies and procedures and all applicable rules and regulations in connection with maintenance of its books and records, communications with its clients and the public, and all other regulatory matters. Additionally, the firm conducts periodic reviews of all of its activities, including client communications, portfolio and trading activity, to verify that its compliance system is functioning properly and that it is in compliance with all applicable regulations.

## **Item 7            Requirements for State-Registered Advisers**

- A.      Kenneth B. Shapiro has not been involved in any events that may be deemed material to be reported under this Item.
- B.      Kenneth B. Shapiro has not been the subject of any bankruptcy petition.