

# **Watters Financial Services, LLC**

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**04/03/2012**

## **FORM ADV PART 2 BROCHURE**

This brochure provides information about the qualifications and business practices of Watters Financial Services, LLC. If you have any questions about the contents of this brochure, please contact us at (201) 843-0044. 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 Watters Financial Services, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Watters Financial Services, LLC is 126339.

Watters Financial Services, LLC is a Registered Investment Adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

## Item 2 Material Changes

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Generally, Watters Financial Services, LLC will notify clients of material changes on an annual basis. However, where we determine that an interim notification is either meaningful or required, we will notify our clients promptly. In either case, we will notify our clients in a separate document.

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## Item 4 Advisory Business

### Introduction

Watters Financial Services, LLC (WFS) is an independently owned and operated Investment Advisory firm and does not represent or is affiliated with any investment firm, insurance company, trust company or bank. WFS is registered with the Securities and Exchange Commission and organized as a limited liability company under the laws of the State of New Jersey. Timothy J. Watters and Maura E. Watters are the principal owners. For over 25 years, our mission has been to offer clients solutions to their current financial concerns and strategies to reach their future goals and objectives.

Mr. Timothy Watters is a CERTIFIED FINANCIAL PLANNER <sup>™</sup> since 1990. The Certified Financial Planner Board of Standards, Inc. establishes and enforces the education, examination, experience and ethics requirements of financial planners receiving CFP certificates.

The Securities and Exchange Commission requires that Timothy J. Watters deliver his services with **fiduciary** accountability and transparency. A fiduciary is legally obligated to act in good faith and in the best interests of the client. A fiduciary is also required to provide services with a duty of loyalty, care and honesty. In addition, a fiduciary is required to provide full disclosure as provided in this ADV PART 2A Brochure.

Many individuals hold themselves out as a "financial planner", "wealth or investment manager" and are only qualified to sell certain products or to give advice in a limited area of the financial services sector. The level of care, accountability, legal and ethical standards to which they are held varies widely. Non-fiduciary advisors are only required to sell clients products that they deem "suitable" to the client. Those products and services may not always be the best fit for a client's financial situation or objectives. Unfortunately, it is confusing and difficult to differentiate among the many people offering financial advice.

This disclosure document provides information about WFS, services, compensation, conflicts of interest, qualifications, etc. The ADV supplement, Part 2B provides further information regarding Timothy Watters. Both documents should be reviewed before becoming a client. Clients are also given an Investment Advisory Agreement, Financial Planning Agreement or Modular Agreement providing additional information depending on the service.

As used in this brochure, "WFS", "we", "our" and "us" refer to Watters Financial Services, LLC and the words "you", "your" and "client" refer to you as either a client or prospective client of our firm. An Associated Person refers to an employee of the firm.

Additional information about WFS is available on the Internet at [http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd\\_OrgSearch.aspx%20](http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_OrgSearch.aspx%20). You can search this site by a unique identifying number, known as a CRD number. The CRD number for WFS is **126339**.

<http://www.wattersfinancial.com> is the firm's website.

Below is a brief description of the five types of services, followed by a more detailed explanation of each of the services available at Watters Financial Services, LLC.

### **1. Wealth Management:**

Part A- Management of Investments with quarterly reviews.

Part B- On-going Comprehensive Financial Planning using a two year Client Engagement Roadmap with the client prioritizing the sequence of issues to be addressed.

**2. Investment Management:** Management of Investments with periodic reviews based on assets under management.

**3. Traditional Financial Planning:** A six-step process leading up to a customized written strategic plan to meet the client's needs, goals, and objectives.

**4. Modular Planning:** Consultation targeted to meet a particular goal, such as college funding or retirement planning.

**5. Pension Consulting Services:** Services regarding Retirement Plans, ERISA, 401(k), and Pension Plans.

### **Description of Services**

#### **1. WEALTH MANAGEMENT**

Wealth Management is a comprehensive investment advisory service that bundles together portfolio management and financial planning components for one advisory fee. Wealth Management is a structured process which includes: (1) Discovery Agreement, (2) Comprehensive two year Financial Planning/ Client Engagement Road Map, (3) Goals Based Reporting (investment benchmark, risk and returns, rebalancing), (4) Periodic reviews, usually quarterly, of both investments and financial planning. Wealth Management is a eight step process.

Step 1. Establishing and defining the client-planner relationship.

Step 2. Gathering client data including goals. We construct a personal profile, identifying your goals, time horizon, liquidity needs, risk tolerance, resources, cash flow and income requirements. The information gathered is used to create a Discovery Agreement which will outline realistic and measurable goals. This information also serves as the foundation for the Client Engagement Roadmap used to structure the on-going comprehensive financial planning. The client prioritizes the sequence of issues that will be addressed over the next two years. These topics may include:

- Retirement Planning; 401(k), IRA, ROTH IRA, Pension Plans, Retirement Funding and Income disbursement,
- Wealth Transfer and Estate Planning; Wills, Trusts, Financial Power of Attorney, Health Care Proxy, Living Will,
- Risk Management and Protection of Income; Insurance for life, disability, homeowners, automobile, long term care, personal liability,
- Business Succession, Buy/Sell Agreements,
- Tax Analysis of Investments and Retirement Vehicles,
- Investment Planning (including portfolio design; i.e. asset allocation and portfolio management,
- College Funding, Debt Management, Cash Flow Analysis and Budgeting.

Step 3. Analyze and evaluate the client's current financial status.

Step 4. Develop and present financial planning recommendations and/or alternatives. Develop the Client Engagement Roadmap outlining the structure of the comprehensive and on-going financial planning over the next two years.

Step 5. Determine the optimal asset allocation and appropriate diversification of the Investment Portfolio. A diversified investment portfolio is designed to maximize returns while simultaneously managing risk. The client's risk tolerance and the risk within each of the assets are considered.

Step 6. Implement the investment portfolio with either discretionary or non-discretionary authority. If you participate in our discretionary portfolio management services, we require you to grant our firm either discretionary or nondiscretionary authority to manage your account. Discretionary authorization will allow our firm to determine the specific securities, and the amount of securities, to be purchased or sold for your account without your approval prior to each transaction. Discretionary authority is granted by the Investment Advisory Agreement you sign with our firm, a limited power of attorney and trading authorization forms. You may limit our discretionary authority (for example, limiting the types of securities that can be purchased for your account) by providing our firm with your restrictions and guidelines in writing. If you enter into nondiscretionary arrangements with our firm, we must obtain your approval prior to executing any transactions on behalf of your account.

Step 7. Monitor investment performance and periodically rebalance portfolio. The investment portfolio is monitored on an ongoing basis. Portfolios are rebalanced if the relative value of the investment changes enough to become inconsistent with the agreed upon asset allocation because of changes in the market condition and in your financial circumstances. Account supervision is guided by the stated objectives of the client, i.e. growth, income or growth and income. Clients are required to promptly notify WFS if there is ever any change in the financial situation or investment objectives.

Step 8. Monitor the progress on comprehensive financial planning. The Client Engagement Roadmap segments the issues and attaches a time table to the strategic financial plan. Financial Planning is a dynamic process and is monitored with periodic reviews, usually quarterly. Different financial strategic plans and/or products may be more appropriate and effective as circumstances change. Planning is affected by changes in the economy, political environment, stock market, tax laws, investment performance, health status, income or other life event such as divorce, job loss or death of a loved one.

## **INVESTMENT MANAGEMENT**

Investment Management is the establishment of an Investment Portfolio with the optimal asset allocation and appropriate diversification for the particular client's risk tolerance, goals, among other considerations. A diversified investment portfolio is designed to maximize returns while simultaneously managing risk. The criteria for selection of investment vehicles and the procedures are determined. The portfolio's performance and allocation of the various types of assets are monitored on an ongoing basis. Periodic review meetings with the client are based on the assets under management. WFS will supervise the client's portfolio and will make recommendations to revise the allocation as market factors and the client's needs dictate. Portfolios are rebalanced, either on a discretionary or nondiscretionary basis, if the relative value of the investment changes enough to become inconsistent with the agreed upon asset allocation. Clients may instruct the firm to refrain from investing in particular securities or certain types of securities. These guidelines and/or restrictions must be documented and signed by the client. Investment Management is a five step process.

Step 1. Establish and define the client-planner relationship.

Step 2. Gather client data. We construct a personal profile, identifying your goals, time horizon, liquidity needs, risk tolerance, resources, cash flow and income requirements.

Step 3. Determine the optimal asset allocation and appropriate diversification of the Investment Portfolio. A diversified investment portfolio is designed to maximize returns while simultaneously managing risk. The client's risk tolerance and the risk within each of the assets are also considered.

Step 4. Implement the investment portfolio with either a discretionary or nondiscretionary authority. If you participate in our discretionary portfolio management services, we require you to grant our firm discretionary authority to manage your account. Discretionary authorization will allow our firm to determine the specific securities, and the amount of securities, to be purchased or sold for your account without your approval prior to each transaction. Discretionary authority is granted by the Investment Advisory Agreement you sign with our firm, a limited power of attorney and trading authorization forms. You may limit our discretionary authority (for example, limiting the types of securities that can be purchased for your account) by providing our firm with your restrictions and guidelines in writing. If you enter into nondiscretionary arrangements with our firm, we must obtain your approval prior to executing any transactions on behalf of your account.

Step 5. Monitor investment performance and periodically rebalance portfolio. The investment portfolio is monitored on an ongoing basis. Portfolios are rebalanced if the relative value of the investment changes enough to become inconsistent with the agreed upon asset allocation because of changes in the market condition and in your financial circumstances. Account supervision is guided by the stated objectives of the client, i.e. growth, income or growth and income. No trades will be completed for clients with nondiscretionary trading authority unless we obtain verbal or written approval of trades. Frequency of review meetings is scheduled based on assets under management. Financial planning services are available on an hourly fee basis. Clients are required to promptly notify WFS if there is ever any change in the client's financial situation or investment objectives.

#### **TRADITIONAL FINANCIAL PLANNING**

Financial planning will typically involve providing a variety of advisory services to clients regarding the management of their financial resources based upon an analysis of their individual needs. If you retain WFS for financial planning services, we will meet with you to gather information about your financial circumstances and objectives. Once we review and analyze the information you provide to our firm, we will deliver a written plan, customized and designed to help you achieve your stated financial goals and objectives. Traditional Financial Planning is a six step process.

Step 1. Initial contact establishes and defines the engagement.

Step 2. Gather client data. We construct a personal profile, identifying your goals, time horizon, liquidity needs, risk tolerance, resources, cash flow and income requirements.

Step 3. Analyze and evaluate the client's current financial status which may include any of the following depending upon what the client wants to address:

- *Personal:* Family records, budgeting and cash flow analysis, and the identification and setting of appropriate financial goals.
- *Education:* Development of an education savings plan that helps the client understand, analyze and maximize college funding opportunities and set realistic, achievable savings goals.
- *Tax Planning:* Help the client maximize their overall after-tax financial gains, minimize losses and understand the tax impact of various investments. We do not prepare tax returns but will work closely with a client's tax professional.
- *Asset and Income Protection:* Assess protection against financial loss in various areas, such as life, disability, long term care, homeowners, automobile and personal liability insurance.

- *Wealth Transfer and Estate Planning*: Help the client understand existing estate planning documents and, if desired, work with client's estate attorney to implement a plan best suited to the client.
- *Retirement*: Analysis of current strategies and investment plans to help the client achieve his or her retirement goals.
- *Investments*: Analysis of client's investment portfolio and portfolio strategy.
- *Business Planning Issues*: Succession Planning, Buy/Sell Agreement, Retirement Plan Design

Step 4. Develop and present a customized written plan documenting recommendations and/or alternatives. Clients must promptly notify our firm if your financial situation, goals, objectives, or needs change which may alter the recommendations presented to you. Watters Financial Services is an independently owned and operated Investment Advisory firm and does not represent or is affiliated with any investment firm, insurance company, trust company or bank. All recommendations are customized to the client and are not influenced by association or affiliation with any type of entity listed above.

Step 5. Implement the financial planning recommendations. This step is **optional**. Clients are under no obligation to act upon any of the recommendations or engage the services of any recommended professional. The client retains final authority over all implementation decisions. Should you choose to act on any of our recommendations, you are not obligated to implement the financial plan through our firm. Moreover, you may act on our recommendations by placing securities transactions with any brokerage firm.

Step 6. Monitor the financial plan. This step is **optional**. Financial planning is a dynamic process and should be monitored with periodic reviews. Different financial strategic plans and/or products may be more appropriate and effective as circumstances change. Planning is affected by changes in the economy, political environment, stock market, tax laws, investment performance, health status, income and other life events such as divorce, job loss or death of a loved one.

### **MODULAR FINANCIAL PLANNING**

Modular planning is designed to address a specific issue such as retirement planning, cash flow management or any of the issues mentioned above in Traditional Financial Planning. A summary letter of recommendations is provided upon the conclusion of our services. You are under no obligation to act upon our recommendations and if you elect to act on any of our recommendations, you are under no obligation to effect the transaction through our firm, or any of the unaffiliated broker-dealers that we may recommend.

### **PENSION CONSULTING**

We offer pension consulting services to employee benefit plans and their fiduciaries based upon the needs of the plan and the services requested by the plan sponsor or named fiduciary. The pension consulting services will generally be nondiscretionary and advisory in nature. The ultimate decision to act on behalf of the plan shall remain with the plan sponsor or other named fiduciary.

Pension Consulting services are comprised of three distinct services. Clients may choose to use any or all of these services:

- *Selection of Investment Vehicles*: WFS will review various investments, consisting exclusively of mutual funds (both index and managed) to determine which of these investments are appropriate to implement the client's plan. The number of investments to be recommended will be determined by the client, based on their guidelines.



- *Monitoring of Investment Performance:* Client investments will be monitored continuously based on the procedures and timing intervals delineated by the client. Although WFS will not be involved in any way in the purchase or sale of these investments, WFS will supervise the plan's portfolio and will make recommendations to the plan sponsor and/or fiduciary as market factors and the plan's needs dictate.
- *Employee Communications:* For pension, profit sharing and 401(k) plan clients wherein there are individual accounts with participants exercising control over assets in their own account, WFS also provides periodic educational support and investment workshops designed for the plan participants. The nature of the topics to be covered will be determined by WFS and the plan sponsor under the guidelines established in ERISA Section 404(c). The educational support and investment workshops will NOT provide plan participants with individualized, tailored investment advice or individualized, tailored asset allocation recommendations.

We may also provide additional types of pension consulting services to plans on an individually negotiated basis. All services, whether discussed above or customized for the plan based upon requirements from the plan fiduciaries (which may include additional plan-level or participant-level services) shall be detailed in a written agreement and be consistent with the parameters set forth in the plan documents.

### **Types of Investments**

We primarily recommend the following types of securities: mutual funds, exchange traded funds ("ETFs"), corporate, municipal, and government bonds, notes and Treasury Bills. However, we may recommend other types of investments as appropriate for you since each client has different needs and different tolerance for risk. Each type of security has its own unique set of risks associated with it and it would not be possible to list here all of the specific risks of every type of investment. Even within the same type of investment, risks can vary widely. However, in very general terms, the higher the anticipated return of an investment, the higher the risk of loss associated with it. Refer to page 10 for general information concerning investment risk. Refer to page 12 for additional and general information concerning the types of investments.

We may also provide advice on any type of investment held in your portfolio at the inception of our advisory relationship.

You may request that we refrain from investing in particular securities or certain types of securities. You must provide these restrictions to our firm in writing and any additional changes to those restrictions must be put in writing by you.

### **Assets Under Management (AUM)**

As of December 16, 2011, we managed \$34,774,465 in client assets on a discretionary basis, and \$19,501,596 in client assets on a nondiscretionary basis.

## **Item 5 Fees and Compensation**

### **FEE SCHEDULE**

#### **Fees for Wealth Management**

The annual fee for WFS' Wealth Management service will be charged as a percentage of assets under management (AUM), according to the following schedule:

<u>Assets Under Management</u>	<u>Annual Fee (%)</u>
under \$750,000	1.00%
\$750,001 to \$1,000,000	0.75%
Over \$1,000,000	0.60%

A minimum of \$500,000 of assets under management is required for this service. At our discretion, we may waive this minimum account size. For example, we may waive the minimum if you appear to have significant potential for increasing your assets under our management. We may group certain related client accounts for the purpose of achieving the minimum account size and determining the annualized fee. We may combine account values for you and your minor children, joint accounts with your spouse, and other types of related accounts to meet the stated minimum.

Clients will be charged in arrears and have their account directly debited at the end of each calendar quarter based upon the value (market value or fair market value in the absence of market value), of the client's account at the end of the previous quarter. WFS will deduct the wealth management fees directly from your account through the qualified custodian holding your funds and securities. We will deduct our advisory fee only when the following requirements are met:

- You provide our firm with written authorization permitting the fees to be paid directly from your account held by the qualified custodian.
- We send you an invoice showing the amount of the fee, the value of the assets on which the fee is based, and the specific manner in which the fee was calculated.
- The qualified custodian agrees to send you a statement, at least quarterly, indicating all amounts dispersed from your account including the amount of the advisory fee paid directly to our firm.

If the portfolio management agreement is executed at any time other than the first day of a calendar quarter, our fees will apply on a pro rata basis, which means that the advisory fee is payable in proportion to the number of days in the quarter for which you were a client.

TD Ameritrade will deliver an account statement to you at least quarterly. These account statements will show all disbursements and transactions from your account. You should review all statements for accuracy. We will also receive a duplicate copy of your account statements. If you do not receive statements directly from TD Ameritrade, you are requested to contact both TD Ameritrade and WFS.

You may terminate the portfolio management agreement upon written notice to our firm. You will incur a pro rata charge for services rendered prior to the termination of the portfolio management agreement, which means you will incur advisory fees only in proportion to the number of days in the quarter for which you are a client.

### **Fees for Investment Management**

The annual fee for WFS' Investment Management service will be charged as a percentage of assets under management (AUM), according to the following schedule:

<u>Assets Under Management</u>	<u>Annual Fee (%)</u>
under \$500,000	1.00%

In general, we require a minimum of \$500,000 to open and maintain a Wealth Management services account. Existing clients whose assets are below or drop below \$500,000 will not receive both its portfolio management and comprehensive financial planning services for the abovementioned asset based fee. Such clients will typically be charged separately for **modular** financial planning at a rate of \$250 per hour in addition to the asset based fee.

Clients will be charged in arrears and have their account directly debited at the end of each calendar quarter based upon the value (market value or fair market value in the absence of market value), of the client's account at the end of the previous quarter. WFS will not directly debit any client account without receiving written authorization from the client.

If the portfolio management agreement is executed at any time other than the first day of a calendar quarter, our fees will apply on a pro rata basis, which means that the advisory fee is payable in proportion to the number of days in the quarter for which you were a client.

TD Ameritrade will deliver an account statement to you at least quarterly. These account statements will show all disbursements and transactions from your account. You should review all statements for accuracy. We will also receive a duplicate copy of your account statements. If you do not receive statements directly from TD Ameritrade, you are requested to contact both TD Ameritrade and WFS.

You may terminate the portfolio management agreement upon written notice to our firm. You will incur a pro rata charge for services rendered prior to the termination of the portfolio management agreement, which means you will incur advisory fees only in proportion to the number of days in the quarter for which you are a client.

#### **Fees for Traditional Financial Planning**

Fees are charged on an hourly basis, at a rate of \$250 per hour. The initial deposit for Traditional Financial Planning the initial deposit is \$500. Clients may be billed periodically or upon completion of the project, depending on the size of the project and hours of work completed. The total fee charged for these services will depend on the nature, scope of planning topics, and complexity of the client's individual financial situation.

An estimate of the total time/cost will be determined at the start of the advisory relationship. In limited circumstances, the cost/time could potentially exceed the initial estimate. In such cases, we will notify you in advance and request that you approve the additional fee.

#### **Fees for Modular Planning**

Fees are charged on an hourly basis, at a rate of \$250 per hour. The initial deposit is \$350. In general, clients will be billed upon completion of the assignment.

An estimate of the total time/cost will be determined at the start of the advisory relationship. In limited circumstances, the cost/time could potentially exceed the initial estimate. In such cases, we will notify you in advance and request that you approve the additional fee.

#### **Fees for Pension Consulting**

Fees for these services will be charged on an hourly basis, at a rate of \$250 per hour or as a percentage of assets fee based on the assets held in the plan. If we are working on an hourly fee basis, the initial deposit is \$350. A retainer may be requested upon completion of our fact-finding session with the client. The plan may be billed quarterly, or upon completion of the project, depending on the nature of the service provided and negotiations with the plan sponsor. The total fee charged for these services will depend on the nature and scope.

For services that involve ongoing asset management, these fees will be charged based on the schedule outlined in the service contract of the plan service provider or the investment advisory service agreement (if the assets are held at TD Ameritrade). These accounts will be billed quarterly in arrears. Either the 401k vendor or TD Ameritrade will directly deduct the fees from the account(s). WFS will not directly debit any account without receiving written authorization from the plan fiduciaries. If the portfolio management agreement is executed at any time other than the first day of a calendar quarter, our fees will apply on a pro rata basis, which means that the advisory fee is payable in proportion to the number of days in the quarter for which the plan is under management. Further, the plan fiduciaries will receive an account statement delivered at least quarterly.

## GENERAL INFORMATION

### **Termination**

A client agreement may be canceled at any time, by either party, for any reason upon receipt of written notice. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

### **Negotiability of Fees and Account Minimums**

In general, certain long-standing clients were subject to WFS' minimum account requirements and advisory fees that were in effect at the time the client entered into the advisory relationship. Therefore, WFS' minimum account requirements and advisory fees may differ among clients. Family members and personal acquaintances may also receive a discounted rate. In certain circumstances, fees and account minimums may be negotiable.

### **Fee Calculation**

The fee charged is calculated as described above and is not charged on the basis of a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client (Section 205(a)(1) of the Advisers Act).

### **Advisory Fees in General**

Similar advisory services may (or may not) be available from other registered investment advisers for similar or lower fees.

### **Other Fees and Expenses**

All fees paid to WFS for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and ETFs (collectively, the "Funds") to their shareholders. These fees and expenses are described in each Fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. ***WFS does not invest in any funds that charge initial or deferred sales charges.***

A client could invest in a Fund directly, without the services of WFS. In that case, the client would not receive the services provided by WFS which are designed, among other things, to assist the client in determining which Fund or Funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the Funds and the fees charged by WFS to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

In addition, clients are responsible for the fees and expenses charged by custodians, broker dealers, and insurance companies. Such fees may include, but are not limited to, any transaction charges, fees for duplicate statements and transaction confirmations, and fees for electronic data feeds and reports.

### **Trade Errors**

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account. If a trade error results in a profit, the trade error will be corrected in the trade error account of the executing broker-dealer and you will not keep the profit.

### **Insurance**

**Timothy Watters is a broker and not an agent. He is therefore free to recommend any insurance product from any insurance company.** Watters Financial Services, LLC is an independent firm and does not represent any one single insurance company. The research of insurance products will only be pursued at the client's request. Clients are not under any obligation to engage Mr. Watters in the purchase of insurance products. The implementation of any recommendation for insurance is solely at the discretion of the client. As part of his fiduciary responsibility, Mr. Watters has a legal obligation to put the client's interests above his own and will not recommend a product that is not appropriate or fits the client's insurance needs. Mr. Watters will be able to receive separate and customary commission compensation resulting from the client's purchase of insurance on behalf of advisory clients. Clients should be aware that the receipt of additional compensation itself creates a conflict of interest.

## **Item 6 Performance-Based Fees and Side-By-Side Management**

We do not accept performance-based fees or participate in side-by-side management. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees.

Performance-based fees are fees that are based on a share of capital gains or capital appreciation of a client's account. Our fees are calculated as described in the *Advisory Business* section above, and are not charged on the basis of a share of capital gains upon, or capital appreciation of, the funds in your advisory account.

## **Item 7 Types of Clients**

We offer investment advisory services to individuals, high net worth individuals and pension and profit sharing plans. We may work with a Power of Attorney, plan sponsor or fiduciary.

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

### **Our Methods of Analysis and Investment Strategies**

We will create a portfolio consisting of one or all of the following: mutual funds, exchange traded funds ("ETFs"), corporate, municipal and government bonds, notes and Treasury Bills. We do not recommend common or preferred stocks, but will incorporate them into client accounts if the client already holds such assets upon opening their account with us. The mutual funds and ETFs will be selected on the basis of any or all of the following criteria: the fund's performance history; the industry sector in which the fund invests; the track record of the fund's manager; the fund's investment objectives; the fund's management style and philosophy; and the fund's management fee structure. Clients will have the opportunity to place reasonable restrictions on the types of investments which will be made on the client's behalf. Clients will retain individual ownership of all securities and receive statements directly from TD Ameritrade.

Our investment strategies and advice may vary depending upon each client's specific financial situation. As such, we determine investments and allocations based upon your predefined objectives, risk tolerance, time horizon, financial horizon, financial information, liquidity needs, and other various suitability factors. Your restrictions and guidelines may affect the composition of your portfolio.

We do not engage in strategy that involves frequent trading of securities which would increase brokerage and other transaction costs and taxes to you. We do not engage in trying to time the market. We do not recommend or engage in short sales, margin transactions, option writing.

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

To minimize risk, we do the following:

1. Determines the client's risk preferences,
2. Constructs portfolios that include assets with varying degrees of risk,
3. Diversifies globally (when agreed),
4. Rebalances periodically in accordance with the client's risk preferences, and
5. Minimizes taxes and transaction costs by limiting trading.

We may use one or more of the following investment strategies when providing investment advice to you:

#### 1. CAPITAL PRESERVATION STRATEGY

An investment strategy whose primary goal is to prevent the loss of an investment's total value. To achieve this goal, investors must ensure their portfolio is producing a return that is at least equal to inflation.

#### 2. INCOME STRATEGY

An income strategy is one of the most conservative strategies. The major goal is to provide a stream of income usually by investing in municipal bonds or stocks or bonds of large, stable and well-established companies that pay regular dividends. It is important to diversify among companies and market sectors. Bonds can get called when interest rates drop and it may not be possible to replace a called bond with another paying the same interest and companies can suspend dividends for certain stocks if the company experiences financial problems.

#### 3. CAPITAL GROWTH AND INCOME

A growth and income strategy aims to provide both growth and income, often by investing in companies which have earnings growth as well as those that pay dividends. Risks are similar to those experienced with income strategies and growth strategies.

#### 4. BALANCE STRATEGY

A portfolio allocation and management method aimed at balancing risk and return. Such portfolios are generally divided equally between equities and fixed-income securities. Although the balanced investment strategy aims to balance risk and return it does carry more risk than those strategies aiming

at capital preservation or current income. In other words, the balanced investment strategy is a somewhat aggressive strategy, and is suitable for those investors with a longer time horizon (generally over five years), and have some risk tolerance

## 5. GROWTH STRATEGY

Growth investing strategy includes the search of stocks that have a potential for growth. The latter means that at a certain point in time the price of the stock will rise. As a result, growth investors target young companies that have the potential of exceeding its peers in the industry or sector. Growth investing by its very nature implies risk since some of the young companies may fail.

## 6. LONG TERM BUY AND HOLD

Buy and hold is a long term investment strategy based on the view that in the long run financial markets give a good rate of return despite periods of volatility or decline. This viewpoint also holds that short term market timing, i.e. the concept that one can enter the market on the lows and sell on the highs, does not work for small, or unsophisticated, investors so it is better to simply buy and hold. The risk involved with this type of strategy is that, if you need your money in the short term, you may not be able to wait for the market to recover from a downturn.

## 7. VALUE STRATEGY

The target stocks of value investment strategy are those that are undervalued by the market. This means that the price of the stock is lower than the real value of the company that has issued it. In order to determine whether the stock is of a value type, most investors refer to its price to earnings ratio. If it is low, then the market is unwilling to pay more for the stock. However, if you are a value investor make sure that there are no other reasons for the low price of the stock, such as an inner problem within the company.

### **Tax Considerations**

Our strategies and investments may have unique and significant tax implications. However, unless we specifically agree otherwise, and in writing, tax efficiency is not our primary consideration in the management of your assets. Regardless of your account size or any other factors, we strongly recommend that you continuously consult with a tax professional prior to and throughout the investing of your assets.

TD Ameritrade will begin reporting the cost basis of equities acquired in client accounts in 2011 and will begin reporting the cost basis of mutual funds in 2012. Our firm uses the FIFO accounting method for calculating the cost basis of your investments. You are responsible for contacting your tax advisor to determine if this accounting method is the right choice for you. If your tax advisor believes another accounting method is more advantageous, please provide written notice to our firm immediately and we will alert your account custodian of your individually selected accounting method. Please note that decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

### **Risk of Loss**

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

### **Particular Types of Securities and their risks (in general terms)**

As disclosed under the "Advisory Business" section in this brochure, we primarily recommend the following types of securities: mutual funds, exchange traded funds ("ETFs"), corporate, municipal, and government bonds, notes and Treasury Bills. However, we may recommend other types of investments as appropriate for you since each client has different needs and different tolerance for risk. Each type of security has its own unique set of risks associated with it and it would not be possible to list here all of the specific risks of every type of investment. Even within the same type of investment, risks can vary widely. However, in very general terms, the higher the anticipated return of an investment, the higher the risk of loss associated with it. You should be advised of the following risks when investing in these types of securities:

Mutual funds and exchange traded funds are professionally managed collective investment systems that pool money from many investors and invest in stocks, bonds, short-term money market instruments, other mutual funds, other securities or any combination thereof. The fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. While mutual funds and ETFs generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market, primarily invests in small cap or speculative companies, uses leverage (i.e., borrows money) to a significant degree, or concentrates in a particular type of security (i.e., equities) rather than balancing the fund with different types of securities. Exchange traded funds differ from mutual funds since they can be bought and sold throughout the day like stock and their price can fluctuate throughout the day. The returns on mutual funds and ETFs can be reduced by the costs to manage the funds. Also, while some mutual funds are "no load" and charge no fee to buy into, or sell out of, the funds, other types of mutual funds do charge such fees which can also reduce returns. Mutual funds can also be "closed end" or "open end". So-called "open end" mutual funds continue to allow in new investors indefinitely which can dilute other investors' interests.

Corporate debt securities (or "bonds") are typically safer investments than equity securities, but their risk can also vary widely based on: the financial health of the issuer; the risk that the issuer might default; when the bond is set to mature; and, whether or not the bond can be "called" prior to maturity. When a bond is called, it may not be possible to replace it with a bond of equal character paying the same rate of return.

Government or Municipal securities, while generally thought of as safe, can have significant risks associated with them including, but not limited to: the credit worthiness of the governmental entity that issues the bond; the stability of the revenue stream that is used to pay the interest to the bondholders; when the bond is due to mature; and, whether or not the bond can be "called" prior to maturity. When a bond is called, it may not be possible to replace it with a bond of equal character paying the same amount of interest or yield to maturity.

## **Item 9 Disciplinary Information**

Watters Financial Services, LLC has been providing investment advisory services since 1986.

Since 1986, Watters Financial Services, LLC, Timothy J. Watters CFP a nor any employee has ever had or committed any reportable disciplinary information or action.

Since 1986, neither Watters Financial Services, LLC, Timothy J. Watters CFP nor any employee has ever had any reportable arbitration claims, civil, self-regulatory organization proceeding or administrative proceeding.



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

Watters Financial Services, LLC and Timothy J. Watters CFP are not registered, nor have an application pending to register as a broker-dealer or as a registered representative of a broker-dealer.

Watters Financial Services, LLC and Timothy J. Watters CFP do not have any relationship or arrangement that is material to the advisory business or to the clients with any financial industry affiliation.

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

### **Code of Ethics**

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for our employees. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All employees are expected to adhere strictly to these guidelines. Our Code of Ethics also requires that employees that have access to your investments ("access persons") submit reports of their personal account holdings and transactions to Timothy J. Watters, who will review these reports on a periodic basis. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies and procedures reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm. Our Code of Ethics is available to you upon request by contacting Timothy J. Watters.

### **Privacy**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any nonpublic personal information about you to any nonaffiliated third parties, except as permitted/required by law. In the course of servicing your account, we may share limited information with our service providers, such as TD Ameritrade, your accountant or attorney or Power of Attorney, if given your permission.

We restrict internal access to nonpublic personal information about you to employees, who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your nonpublic personal information and to ensure our integrity and confidentiality. We will never sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our Privacy Notice usually prior to meeting with us or at the time you sign either a Investment Management Agreement or Financial Planning Agreement (Traditional or Modular). All clients receive a copy of the Privacy Notice on an annual basis as well as an offer to receive this Form ADV Part 2 brochure.

### **Participation or Interest in Client Transactions**

Neither our firm nor any of our access persons has any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in this Brochure.

### **Personal Trading Practices**

Our firm or persons associated with our firm may buy or sell the same securities that we recommend to you or securities in which you are already invested. A conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To eliminate this conflict of interest, it is our policy that neither our employees nor we shall have priority over your account in the purchase or sale of securities.

Watters Financial Services, Timothy Watters and employees do not have a material relationship or arrangement with any issuer of securities.

## **Item 12 Brokerage Practices**

We recommend the brokerage and custodial services of TD Ameritrade, Inc. a securities broker-dealer and a member of the Financial Industry Regulatory Authority, the Securities Investor Protection Corporation, and the National Futures Association. We believe TD Ameritrade provides "Best Execution" meaning that TD Ameritrade provides quality execution services for you at competitive prices. Price is not the sole factor we consider in evaluating best execution. We also consider the quality of the brokerage services including the value of research provided, TD Ameritrade's reputation, execution capabilities, commission rates, and responsiveness to our clients and our firm. In recognition of the value of research services and additional brokerage products and services TD Ameritrade provides, you may pay higher commissions and/or trading costs than those that may be available elsewhere.

### **Best Execution and Soft Dollar Benefits**

Watters Financial Services LLC participates in TD Ameritrade Institutional, an institutional customer program and division of TD Ameritrade, Inc. ("TD Ameritrade".) TD Ameritrade Institutional offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions.

Watters Financial Services LLC receives some benefits from TD Ameritrade through its participation in the Institutional program that it would not receive if it did not offer investment advice to clients.

TD Ameritrade offers custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

The institutional platform offers products and services that assist Watters Financial Services LLC in managing and administering clients' accounts that:

- provides access to client account data and receipt of duplicate trade confirmations and account statements;
- facilitates trade execution of buy and sell transactions;
- provides research, pricing and other market data and tools;
- facilitates Watters Financial Services LLC' ability to have advisory fees deducted directly from client accounts;
- assists with back-office functions, keeping records and client reporting;
- provides duplicate client statements and confirmations;
- provides access to a trading desk serving Watters Financial Services LLC;

- provides access to block trading (i.e., the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts);
- provides access to an electronic communications network for client order entry and account information; and
- provides access to mutual funds with no transaction fees and to certain institutional money managers.

Clients should be aware that the receipt of economic benefits in and of itself creates a potential conflict of interest and may indirectly influence our choice of TD Ameritrade for custody and brokerage services as the custodian does consider its profitability when determining whether to provide or continue providing additional services.

As part of its fiduciary duties to clients, the firm endeavors at all times to put the interests of its clients first.

The receipt of services from TD Ameritrade does not diminish our legal obligation and fiduciary duty to act in the best interests of our clients. There is no direct link between our participation in the program and the investment advice we give to our clients.

The benefits received by us through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade.

WFS receives other additional services from TD Ameritrade and agrees that such additional services will be used in connection with its investment advisory business and for the direct or indirect benefit of clients transferring or maintaining assets in accounts at TD Ameritrade. These products or services may assist us in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Some of the products and services made available by TD Ameritrade through the program may benefit us but may not directly benefit our client accounts and some are intended to help us manage and further develop our business.

These additional services may not be offered to other independent investment advisers that participate in the TD Ameritrade Institutional program or to TD Ameritrade retail investors. These additional services do not constitute fees, commissions or other remuneration contingent on the execution of securities transactions or the utilization of any other service or product. These benefits may be provided without cost or at a discount and may include consulting services, discounts on compliance, marketing, research, technology or practice management products and services provided to us by third party vendors.

The products and services provided to Watters Financial Services by TD Ameritrade include the following:

- Morningstar Advisor Workstation, a web-based solution specifically designed for financial advisers that provides tools to conduct investment research, portfolio management and diagnostics, and to create sophisticated investment plans, presentations and proposals. TD Ameritrade pays an annual licensing fee for Watters Financial Services LLC of up to \$2,000.
- Portfolio Center, a software application that provides the functionality needed to efficiently manage financial data, run back office and serve clients. TD Ameritrade pays an annual licensing fee for us of up to \$3,500.
- Reimbursement for expenses related to non-client or educational seminars and conferences (including reimbursement for travel expenses, meals and lodging), and waiver or discounts from third-party service providers.

- Payment or reimbursement of expenses (including travel, lodging, meals and entertainment expenses) during meetings, conferences, and seminars.

TD Ameritrade provides the Additional Services to Advisor in its sole discretion and at its own expense, and Advisor does not pay any fees to TD Ameritrade for the Additional Services. Advisor and TD Ameritrade have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services.

Advisor's receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to Advisor, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, Advisor's Client accounts maintained with TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum with Advisor, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, Advisor may have an incentive to recommend to its Clients that the assets under management by Advisor be held in custody with TD Ameritrade and to place transactions for Client accounts with TD Ameritrade. Advisor's receipt of Additional Services does not diminish its duty to act in the best interests of its Clients, including to seek best execution of trades for Client accounts.

#### **Client Referrals from TD Ameritrade**

We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

#### **Directed Brokerage**

We routinely recommend, request, or require that you direct our firm to execute transactions through TD Ameritrade. As such, we may be unable to achieve the most favorable execution of your transactions and you may pay higher brokerage commissions than you might otherwise pay through another broker-dealer that offers the same types of services. Not all advisers require their clients to direct brokerage.

#### **Block Trades**

We generally do not but we do maintain the option to combine multiple orders for shares of the same securities purchased for advisory accounts we manage. Block trading is the practice of combining multiple orders for shares of the same securities. Accordingly, you may pay different prices for the same securities transactions than other clients pay. Furthermore, we may not be able to buy and sell the same quantities of securities for you and you may pay higher commissions, fees, and/or transaction costs than other clients.

## **Item 13 Review of Accounts**

Timothy J. Watters will monitor your account(s) on a continuous basis and will periodically conduct account reviews. The reviews are conducted to ensure the advisory services provided to you and the portfolio mix is consistent with your current investment needs and objectives. Additional reviews may be conducted based on various circumstances, including, but not limited to:

- contributions and withdrawals,
- year-end tax planning,
- market moving events,
- security specific events, and/or,
- changes in your risk/return objectives.

You will receive trade confirmations and monthly or quarterly statements from TD Ameritrade.

Wealth Management clients do not receive a single written financial planning document as this service includes a comprehensive and ongoing financial planning service. Clients are provided a two year "Client Engagement Roadmap" that breaks down the planning process into assignments/activities that are discussed in the clients' quarterly meetings.

## Item 14 Client Referrals and Other Compensation

We do not receive any compensation from any third party in connection with providing investment advice to our clients. Watters Financial Services, LLC is an **independently** owned and operated Investment Advisory firm and does not represent or is affiliated with any investment firm, trust company or bank.

In addition, Watters Financial Services, LLC does not represent any one single insurance company. Timothy Watters is a broker and not an agent. He is therefore free to recommend any insurance product from any insurance company.

As of March 29, 2011, the firm does not have any arrangement to compensate a solicitor for referring a client to the firm. However, we reserve the right to enter into such a relationship where WFS will compensate an individual (such as an attorney or accountant) or firm (law firm or accounting firm) for referring an individual who later becomes a client. We will disclose all information to the client in written documents from **both** the solicitor and WFS as required by the regulators under Section 206(4)-3 of the Investment Advisors Act of 1940 and similar state regulations. All appropriate disclosure will be made to the client and all written documentation will be maintained by Watters Financial Services, LLC and all Federal and/or State laws will be observed.

## Item 15 Custody

We directly debit your account for the payment of our advisory fees. This ability to deduct our advisory fees from your account causes WFS to exercise limited custody over your funds and securities. We do not have physical custody of any of your funds and/or securities. Your funds and securities are held with TD Ameritrade and you will receive account statements directly from TD Ameritrade at least quarterly. The account statements indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review your account statements for accuracy. If you have a question regarding your account statement or if you did not receive a statement directly from TD Ameritrade you should contact WFS.

## Item 16 Investment Discretion

Before we can buy or sell securities on your behalf, you must first sign our Investment Management Agreement. You may grant our firm discretion over the selection and amount of securities to be purchased or sold for your account(s) without obtaining your consent or approval prior to each transaction. You may specify investment objectives, guidelines, and/or impose certain conditions or investment parameters/restrictions for your account(s). For example, you may specify that the investment in any particular stock or industry should not exceed specified percentages of the value of the portfolio and/or restrictions or prohibitions of transactions in the securities of a specific industry or security. These instructions must be in writing. If you enter into non-discretionary arrangements with our firm, we will obtain your approval prior to the execution of any transactions for your account(s).

## Item 17 Voting Client Securities

### Proxy Voting

We will not vote proxies on behalf of your advisory accounts.. If you own shares of common stock or mutual funds, you are responsible for exercising your right to vote as a shareholder. We may offer you advice regarding proxy at your request.

## Item 18 Financial Information

We are not required to provide a balance sheet as part of this disclosure document because the firm does not have custody of client funds or securities, has not been the subject of a bankruptcy petition at any time, does not have a financial condition that is reasonably likely to impair our ability to meet our commitments, does not require or solicit prepayment of more than \$500 in fees per client, six months or more in advance.

## Item 19 Requirements for State-Registered Advisers

Refer to the Part(s) 2B for background information about management personnel and those giving advice on behalf of our firm.

Our firm is not actively engaged in any business other than giving investment advice.

Neither our firm, nor any persons associated with our firm are compensated for advisory services with performance-based fees. Please refer to the "Performance-Based Fees and Side-By-Side Management" section above for additional information on this topic.

Neither our firm, nor any of our management persons have any reportable arbitration claims, civil, self-regulatory organization proceedings or administrative proceedings.

Neither our firm, nor any of our management persons have a material relationship or arrangement with any issuer of securities.

All material conflicts of interest under CA CCR Section 260.238 (k) are disclosed regarding our firm and our Associated Persons or any of our employees, which could be reasonably expected to impair the rendering of unbiased and objective advice.

## Additional Information

### **Class Actions, Bankruptcies and other Legal Proceedings**

WFS will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements.

If desired, clients may direct WFS to transmit copies of class action notices to the client or a third party. Upon such direction, WFS will make commercially reasonable efforts to forward such notices in a timely manner .

**Timothy John Watters**

**Watters Financial Services, LLC**

**16 Arcadian Avenue, Suite C4  
Paramus, NJ 07652**

**(201) 843-0044 Phone  
(201) 843-1171 Facsimile**

**[www.wattersfinancial.com](http://www.wattersfinancial.com)**

**02/12/2011**

**FORM ADV PART 2B  
BROCHURE SUPPLEMENT**

This brochure supplement provides information about Timothy J. Watters that supplements Watters Financial Services, LLC's brochure. You should have received a copy of that brochure. Please contact Timothy J. Watters if you did not receive Watters Financial Services, LLC's brochure or if you have any questions about the contents of this supplement.

Additional information about Timothy J. Watters is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



## Item 2 Educational Background and Business Experience

### **Timothy J. Watters, CFP®**

*Year of Birth:* 1959

*Formal Education after High School:*

- Pace University, MBA; Finance & Marketing, 1985
- State University of New York at Albany, BA; Psychology & Economics, 1981

*Business Background for the Previous Five Years:*

- Watters Financial Services, LLC, Managing Member & Chief Compliance Officer, 2007 to Present
- Cambridge Investment Research, Inc., Registered Representative, 2003-2009
- Timothy J. Watters, CFP, Sole Proprietor, Registered Investment Adviser, 1999-2007
- Timothy J. Watters, CFP Sole Proprietorship, 1986-2007

*Certifications:*

The CERTIFIED FINANCIAL PLANNER, CFP and federally registered CFP (with flame design) marks (collectively, the "CFP marks") are professional certification marks granted in the United States by Certified Financial Planner Board of Standards, Inc. ("CFP Board").

The CFP certification is a voluntary certification; no federal or state law or regulation requires financial planners to hold CFP certification. It is recognized in the United States and a number of other countries for its (1) high standard of professional education; (2) stringent code of conduct and standards of practice; and (3) ethical requirements that govern professional engagements with clients. Currently, more than 62,000 individuals have obtained CFP certification in the United States.

To attain the right to use the CFP marks, an individual must satisfactorily fulfill the following requirements:

- Education - Complete an advanced college-level course of study addressing the financial planning subject areas that CFP Board's studies have determined as necessary for the competent and professional delivery of financial planning services, and attain a Bachelor's Degree from a regionally accredited United States college or university (or its equivalent from a foreign university). CFP Board's financial planning subject areas include insurance planning and risk management, employee benefits planning, investment planning, income tax planning, retirement planning, and estate planning;
- Examination - Pass the comprehensive CFP Certification Examination. The examination, administered in 10 hours over a two-day period, includes case studies and client scenarios designed to test one's ability to correctly diagnose financial planning issues and apply one's knowledge of financial planning to real world circumstances;
- Experience - Complete at least three years of full-time financial planning-related experience (or the equivalent, measured as 2,000 hours per year); and
- Ethics - Agree to be bound by CFP Board's *Standards of Professional Conduct*, a set of documents outlining the ethical and practice standards for CFP professionals.

Individuals who become certified must complete the following ongoing education and ethics requirements in order to maintain the right to continue to use the CFP marks:

- Continuing Education - Complete 30 hours of continuing education hours every two years, including two hours on the *Code of Ethics* and other parts of the *Standards of Professional Conduct*, to maintain competence and keep up with developments in the financial planning field; and
- Ethics - Renew an agreement to be bound by the *Standards of Professional Conduct*. The Standards prominently require that CFP professionals provide financial planning services at a fiduciary standard of care. This means CFP professionals must provide financial planning services in the best interests of their clients.

CFP professionals who fail to comply with the above standards and requirements may be subject to CFP Board's enforcement process, which could result in suspension or permanent revocation of their CFP certification.

### **Item 3 Disciplinary Information**

Mr. Watters does not have any reportable disciplinary information nor has he ever had any reportable disciplinary actions against him.

### **Item 4 Other Business Activities**

Mr. Watters is separately licensed as an independent insurance broker. As an insurance broker, Mr. Watters can recommend any insurance product from any insurance company that he deems appropriate in addressing his client's needs. In this capacity, he can effect transactions in insurance products for his clients and earn commissions for these activities. The fees you pay our firm for advisory services are separate and distinct from the commissions earned by Mr. Watters for insurance related activities. This presents a conflict of interest because Mr. Watters may have an incentive to recommend insurance products to you for the purpose of generating commissions rather than solely based on your needs. However, you are under no obligation, contractually or otherwise, to purchase insurance products through any person affiliated with our firm.

### **Item 5 Additional Compensation**

Mr. Watters does not receive any additional compensation for providing advisory services beyond the compensation he receives through Watters Financial Services, LLC.

### **Item 6 Supervision**

Timothy J. Watters, Chief Compliance Officer and Managing Member and Maura E. Watters, Member of Watters Financial Services, LLC, form the compliance committee. All investment advisory accounts and financial plans are reviewed by Timothy J. Watters. You may contact Timothy J. Watters at (201) 843-0044.

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

Mr. Watters does not have any reportable arbitration claims, has not been found liable in a reportable civil, self-regulatory organization proceeding or administrative proceeding, and has not been the subject of a bankruptcy petition.