

# Disclosure Brochure

March 16, 2011

## **Targeted Financial Services, LLC**

*a Registered Investment Adviser*

900 Route 9 North  
Woodbridge, New Jersey 07095

(732) 750-9880

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

This brochure provides information about the qualifications and business practices of Targeted Financial Services, LLC (herein after "TFS"). If you have any questions about the contents of this brochure, please contact James C. Payne, Jr. at (732) 750-9880. 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 Targeted Financial Services, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Targeted Financial Services, LLC is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## Item 2. Material Changes

This section of the brochure discusses only the material changes that have occurred since TFS's last annual update dated March 31, 2010. TFS does not have any material changes to disclose in response to this Item.

## Item 3. Table of Contents

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### Supervised Person Brochure Supplements

## Item 4. Advisory Business

TFS was founded July 2001 and has been in business as an SEC registered investment adviser since December 2003. Jonathan Green, Alan Rubin, and James Payne are the principal owners of TFS. From the firm's inception, it has been TFS's mission to identify its clients' financial and estate goals, formulate a comprehensive strategy, and provide them with the appropriate investment and insurance vehicles to fulfill those needs.

TFS provides financial planning, consulting, and investment management services. Prior to engaging TFS to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with TFS setting forth the terms and conditions under which TFS renders its services (collectively the "*Agreement*").

TFS has \$82,248,000 of assets under management as of January 11, 2011. \$81,561,000 of these assets are managed on a discretionary basis and \$687,000 are managed on a non-discretionary basis.

This disclosure brochure describes the business of TFS. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of TFS'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 TFS's behalf and is subject to TFS's supervision or control.

### Financial Planning and Consulting Services

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TFS may provide its clients with a broad range of comprehensive financial planning and consulting services (which may include tax-related and other non-investment related matters). These services include education planning, retirement planning, cash flow projections, and estate planning in conjunction with client's legal counsel.

In performing its services, TFS 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. TFS may recommend the services of itself, its *Supervised Persons* in their individual capacities as registered representatives of a broker-dealer, and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if TFS recommends its own services. The client is under no obligation to act upon any of the recommendations made by TFS under a financial planning or consulting engagement or to engage the services of any such recommended professional, including TFS itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of TFS's recommendations. Clients are advised that it remains their responsibility to promptly notify TFS if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising TFS's previous recommendations and/or services.

## **Investment Management Services**

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Clients can engage TFS to manage all or a portion of their assets on a discretionary or non-discretionary basis.

TFS primarily allocates clients' investment management assets among mutual funds, exchange traded funds ("ETFs"), individual debt and equity securities, certificates of deposit, and/or options as well as the securities components of variable annuities and variable life insurance contracts in accordance with the investment objectives of the client. In addition, TFS may recommend that clients who are "accredited investors" as defined under Rule 501 of the Securities Act of 1933, as amended, invest in private placement securities, which may include debt, equity, and/or pooled investment vehicles when consistent with the clients' investment objectives. TFS also provides advice about any type of investment otherwise held in its clients' portfolios.

TFS 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 other products that may not be held by the client's primary custodian. In so doing, TFS 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.

TFS tailors its advisory services to the individual needs of clients. TFS ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance. Clients are advised to promptly notify TFS if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon TFS's management services.

## **Additions and Withdrawals to Accounts**

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Clients may make additions to and withdrawals from their account at any time, subject to TFS's right to terminate an account. Clients may withdraw account assets on notice to TFS, subject to the usual and customary securities settlement procedures. However, TFS designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives.

## Item 5. Fees and Compensation

TFS offers its services on a fee basis which may include hourly and/or fixed fees as well as fees based upon assets under management. Alternatively, certain of TFS's *Supervised Persons* may offer securities brokerage services and insurance products under a commission arrangement.

### Financial Planning and Consulting Fees

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TFS may charge a fixed fee and/or hourly fee for financial planning and consulting services. These fees are negotiable, but generally range from \$750 to \$5,000 on a fixed fee basis and/or from \$125 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. If the client engages TFS for additional investment advisory services, TFS may offset all or a portion of its fees for those services based upon the amount paid for the financial planning and/or consulting services.

Prior to engaging TFS to provide financial planning and/or consulting services, the client is required to enter into a written agreement with TFS setting forth the terms and conditions of the engagement. Generally, TFS requires one-half of the financial planning or consulting fee (estimated hourly or fixed) payable upon entering the written agreement. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services.

### Investment Management Fee

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In the event the client determines to engage TFS to provide investment management services, TFS does so on a fee basis. TFS charges an annual fee based upon a percentage of the market value of the assets being managed by TFS. TFS'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. However, TFS does not receive any portion of these commissions, fees, and costs. TFS's annual fee is prorated and charged quarterly, in arrears, based upon the market value of the assets being managed by TFS on the last day of the previous quarter. The annual fee varies (between 1.00% and 2.00%) depending upon the market value of the assets under management and the type of investment management services to be rendered.

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

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## **Fees Charged by Financial Institutions**

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

TFS may only implement its investment management recommendations after the client has arranged for and furnished TFS with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, *Fidelity*, *Schwab*, any other broker-dealer recommended by TFS, 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, charges imposed directly by a mutual fund or ETF in the account, which shall be 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. Additionally, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to TFS's fee.

TFS's *Agreement* and the separate agreement with any *Financial Institutions* may authorize TFS to debit the client's account for the amount of TFS's fee and to directly remit that management fee to TFS. Any *Financial Institutions* recommended by TFS 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 TFS.

## **Fees for Management During Partial Quarters of Service**

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

The *Agreement* between TFS and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. TFS's fees shall be prorated through the date of termination and any remaining balance shall be charged to the client, as appropriate.

Additions may be in cash or securities provided that TFS reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. TFS 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.

## **Commissions or Sales Charges for Recommendations of Securities**

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Clients can engage certain persons associated with TFS (but not TFS) to render securities brokerage services under a commission arrangement. Clients are under no obligation to engage such persons and

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may choose brokers or agents not affiliated with TFS. Under this arrangement, clients may implement securities transactions through certain of TFS's *Supervised Persons* in their respective individual capacities as registered representatives of Triad Advisors, Inc. ("*Triad*"), an SEC registered broker-dealer and member of FINRA. *Triad* may charge brokerage commissions to effect these securities transactions and thereafter, a portion of these commissions may be paid by *Triad* to such *Supervised Persons*. Prior to effecting any transactions clients are required to enter into a new account agreement with *Triad*. The brokerage commissions charged by *Triad* may be higher or lower than those charged by other broker-dealers. In addition, certain of TFS's *Supervised Persons* may also receive ongoing 12b-1 fees for mutual fund purchases from the mutual fund company during the period that the client maintains the mutual fund investment. TFS may also recommend the purchase of certain no-load funds, under which the client incurs no brokerage commissions.

A conflict of interest exists to the extent that TFS recommends the purchase of securities where TFS's *Supervised Persons* receive commissions or other additional compensation as a result of TFS's recommendations. TFS has procedures in place to ensure that any recommendations made by such *Supervised Persons* are in the best interest of clients.

For accounts covered by ERISA (and such others that TFS, in its sole discretion deems appropriate), TFS provides its investment advisory services on a fee-offset basis. In this scenario, TFS may offset its fees by an amount equal to the aggregate commissions and 12b-1 fees earned by TFS's *Supervised Persons* in their individual capacities as registered representatives of *CBD*.

TFS's *Supervised Persons* currently devote approximately ten percent (10%) of their time to commission securities brokerage business.



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

TFS 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.

### **Item 7. Types of Clients**

TFS provides its services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities. TFS does not impose a minimum portfolio size or minimum annual fee.

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

### Methods of Analysis

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TFS relies primarily on fundamental and technical methods of analysis.

*Fundamental analysis* involves the fundamental financial condition and competitive position of a company. TFS analyzes 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.

*Technical analysis* involves the analysis of past market data rather than specific company data in determining the recommendations made to clients. Technical analysis may involve the use of charts to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. The primary risk in using technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that TFS will be able to accurately predict such a reoccurrence.

### Management Through Similarly Managed Accounts

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

TFS utilizes allocation models as a guide for managing its clients' assets. TFS consults with its clients individually to discuss the specific risks and rewards of its model portfolios and determines the one most suitable in light their personal investment objectives. TFS uses these models to ensure that clients' assets are invested in the types of securities that meet their specific investment goals. Models range in composition from a conservative income-only portfolio (comprised of only cash and fixed income investments) to a more aggressive growth portfolio (comprised almost exclusively of equity investments).

The types of securities used by TFS depends on the market value of a client's account. TFS uses these benchmarks as a discussion point with the client and TFS may deviate from these benchmarks depending on a client's objectives and risk tolerance. For client accounts less than \$15,000, TFS typically transacts exclusively in mutual funds. For client accounts between \$15,000 and \$50,000, TFS typically transacts in both mutual funds and ETFs. For client accounts that exceed \$50,000, TFS typically transacts in mutual funds and ETFs, as well as individual stocks and bonds.

The models that TFS uses can be adjusted at anytime to account for changing market conditions. At a minimum, all models are reviewed at least quarterly by TFS's investment committee. The investment committee assesses the suitability of each holding to ensure that it remains consistent with investment objectives of the clients whose assets are managed pursuant to that allocation model.

TFS'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.

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 TFS's clients may be limited. For example, various mutual funds or insurance companies may limit the ability of TFS to buy, sell, exchange or transfer securities consistent with its *investment strategy*. As further discussed in response to Item 12 (below), TFS allocates investment opportunities among its clients on a fair and equitable basis.

### **Mutual Funds and Exchange Traded Funds (ETFs)**

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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). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

## Options

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Options allow investors to buy or sell a security at a contracted “strike” price (not necessarily the current market price) at or within a specific period of time. Clients may pay or collect a premium for buying or selling an option. Investors transact in options to either hedge (limit) losses in an attempt to reduce risk or to speculate on the performance of the underlying securities. Options transactions contain a number of inherent risks, including the partial or total loss of principal in the event that the value of the underlying security or index does not increase/decrease to the level of the respective strike price. Holders of options contracts are also subject to default by the option writer which may be unwilling or unable to perform its contractual obligations.

## Market Risks

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The profitability of a significant portion of TFS’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 TFS will be able to predict those price movements accurately.

## Use of Margin

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To the extent that a client authorizes the use of margin, and margin is thereafter employed by TFS in the management of the client’s investment portfolio, the market value of the client’s account and corresponding fee payable by the client to TFS will be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential conflict of interest whereby the client’s decision to employ margin shall correspondingly increase the management fee payable to TFS. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

While the use of margin borrowing can substantially improve returns, such use may also increase the adverse impact to which a client’s portfolio may be subject. Borrowings will usually be from securities brokers and dealers and will typically be secured by the client’s securities and/or other assets. Under certain circumstances, such a broker-dealer may demand an increase in the collateral that secures the client’s obligations and if the client were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the client’s obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the client’s borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the client’s profitability.

## Use of Private Collective Investment Vehicles

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TFS may recommend the investment by certain clients in privately placed collective investment vehicles (some of which may be typically called “hedge funds”). The managers of these vehicles will have broad discretion in selecting the investments. There are few limitations on the types of securities or other

financial instruments which may be traded and no requirement to diversify. The hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is an absence of regulation. There are numerous other risks in investing in these securities. The client will receive a private placement memorandum and/or other documents explaining such risks.

### **Risk of Loss**

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

### **Item 9. Disciplinary Information**

TFS 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. TFS does not have any required disclosures to this Item.

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

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

#### **Receipt of Securities Commission**

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As described above in response to Item 5, certain *Supervised Persons* of TFS are also registered representatives of *Triad*. As a result of this relationship, *Triad* may have access to certain confidential information (e.g., financial information, investment objectives, transactions and holdings) about TFS's clients, even if the client does not establish any account through *Triad*. Any client that would like a copy of the *Triad* privacy policy can contact TFS at the contact information on the cover page of this brochure.

#### **Related Real Estate Broker**

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Jonathan Green, a *Supervised Person* of TFS, is also licensed real estate broker in his individual capacity. In such capacity, Mr. Green may recommend, on a fully-disclosed basis, the purchase of certain real estate properties to TFS's clients. As a result, a conflict of interest exists to the extent that TFS recommends an investment in real estate and Mr. Green subsequently acts as real estate broker for the transaction.



### Item 11. Code of Ethics

TFS and its *Supervised Persons* are permitted to buy or sell securities that it also recommends to clients consistent with TFS's policies and procedures.

TFS 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 Advisers Act, its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by TFS or any of its associated persons. The *Code of Ethics* also requires that certain of TFS'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 TFS's *Code of Ethics*, none of TFS'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 TFS's clients.

When TFS 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 TFS 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 TFS to request a copy of its *Code of Ethics*.

### Item 12. Brokerage Practices

As discussed above, in Item 5, TFS shall generally recommend that clients utilize the brokerage and clearing services of *Fidelity* and *Schwab*.

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

The commissions paid by TFS's clients comply with TFS'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 TFS 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. TFS seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Transactions may be cleared through other *Financial Institutions* with whom TFS and the *Financial Institutions* have entered into agreements for prime brokerage clearing services. TFS 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 TFS 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 TFS 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 TFS (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, TFS may decline a client's request to direct brokerage if, in TFS's sole discretion, such directed brokerage arrangements would result in additional operational difficulties or violate restrictions imposed by other broker-dealers (as further discussed below).

Transactions for each client generally will be effected independently, unless TFS decides to purchase or sell the same securities for several clients at approximately the same time. TFS 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 TFS'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 TFS's clients pro rata

to the purchase and sale orders placed for each client on any given day. To the extent that TFS determines to aggregate client orders for the purchase or sale of securities, including securities in which TFS's *Supervised Persons* may invest, TFS shall generally do 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. TFS shall not receive any additional compensation or remuneration as a result of the aggregation. In the event that TFS 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, TFS 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.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist TFS in its investment decision-making process. Such research generally will be used to service all of TFS's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because TFS does not have to produce or pay for the products or services.

### **Commissions or Sales Charges for Recommendations of Securities**

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As discussed above, certain *Supervised Persons* in their respective individual capacities, are registered representatives of *Triad*. These *Supervised Persons* are subject to FINRA Rule 3040 which restricts registered representatives from conducting securities transactions away from their broker-dealer unless *Triad* provides written consent. Therefore, clients are advised that certain *Supervised Persons* may be restricted to conducting securities transactions through *Triad* unless they first secure written consent from *Triad* to execute securities transactions through a different broker-dealer. Absent such written consent or separation from *Triad*, these *Supervised Persons* are prohibited from executing securities transactions through any broker-dealer other than *Triad* under *Triad* internal supervisory policies. TFS is cognizant of

its duty to obtain best execution and has implemented policies and procedures reasonably designed in such pursuit.

### **Software and Support Provided by Financial Institutions**

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

Specifically, TFS may receive the following benefits from *Fidelity* through the Fidelity Registered Investment Advisor Group and *Schwab* through its Schwab Institutional division: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its Registered Investment Advisor Group / Schwab Institutional 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 TFS provides investment supervisory services, TFS monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom TFS provides investment management services, account reviews are conducted on a quarterly basis. For those clients to whom TFS provides financial planning and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by one of TFS’s investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with TFS and to keep TFS informed of any changes thereto. TFS shall contact 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 TFS provides investment advisory services will also receive a report from TFS that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance on a quarterly basis. Clients should compare the account statements they receive from their custodian with those they receive from TFS.

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

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

TFS is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. In addition, TFS is required to disclose any direct or indirect compensation that it provides for client referrals.

If a client is introduced to TFS by either an unaffiliated or an affiliated solicitor, TFS 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 shall be paid solely from TFS's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to TFS by an unaffiliated solicitor, the solicitor shall provide the client with a copy of TFS's written disclosure statement 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 TFS shall disclose 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 TFS's written disclosure statement at the time of the solicitation.

TFS 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 10, above.

### Item 15. Custody

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

The *Financial Institutions* recommended by TFS 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 TFS. In addition, as discussed in Item 13, TFS also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from TFS.

### Item 16. Investment Discretion

TFS may be given the authority to exercise discretion on behalf of clients. TFS 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. TFS is given this authority through a power-of-attorney included in the agreement between TFS and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). TFS takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The *Financial Institutions* to be utilized.



### Item 17. Voting Client Securities

TFS may vote client securities (proxies) on behalf of its clients. When TFS accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully- described in TFS's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in TFS's Proxy Voting Policies and Procedures, as they may be amended from time-to-time. Clients may contact TFS to request information about how TFS voted proxies for that client's securities or to get a copy of TFS's Proxy Voting Policies and Procedures. A brief summary of TFS's Proxy Voting Policies and Procedures is as follows:

- TFS has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.
- The Proxy Voting Committee will generally vote proxies according to TFS's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, TFS devotes an appropriate amount of time and resources to monitor these changes.
- Clients cannot direct TFS's vote on a particular solicitation but can revoke TFS's authority to vote proxies.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that TFS maintains with persons having an interest in the outcome of certain votes, TFS takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

### **Item 18. Financial Information**

TFS does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, TFS is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. TFS has no disclosures pursuant to this Item.

## **Targeted Financial Services, LLC**

*a Registered Investment Adviser*

900 Route 9 North  
Woodbridge, New Jersey 07095

(732) 750-9880

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

Prepared by:



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*The Adviser's Advisor®*