

## **Item 1 - Cover Page**

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This brochure provides information about the qualifications and business practices of YellowBrickRoad Financial Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at (415) 346-2221. 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 YellowBrickRoad Financial Advisors, LLC is also available on the Internet at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can view information on this website by searching for YellowBrickRoad Financial Advisors, LLC's name or by using its CRD number: 134209.

\*Registration as an investment advisor does not imply a certain level of skill or training.

## **Item 2 – Material Changes**

Effective May 2012, the firm began using unaffiliated investment advisor strategists to provide trade recommendations relative to some of its managed accounts. Use of these unaffiliated strategists could increase the total advisory fee charged to clients, although not the advisory fee paid to YellowBrickRoad Financial Advisors, LLC.

The firm will ensure that clients receive a summary of any material changes to Disclosure Brochures within 120 days after the firm's fiscal year end, which is December 31. This means clients will receive the summary of material changes no later than April 30 each year. At that time, YellowBrickRoad Financial Advisors, LLC will also offer a copy of its most current Disclosure Brochure and may also provide other ongoing disclosure information about material changes as necessary.

Clients and prospective clients can always receive the most current Disclosure Brochure for YellowBrickRoad Financial Advisors, LLC at any time by contacting Ken Miller at (415) 346-2221.

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## **Item 4 – Advisory Business**

### **Ownership**

YellowBrickRoad Financial Advisors, LLC (“Advisor”) is an investment advisor registered with the Securities and Exchange Commission since July 2011. Before that, the Advisor was registered with the State of California since May 26, 2005. Advisor is a limited liability company formed under the laws of the State of California. John S. Ohmer is the sole owner.

### **General Description of Primary Advisory Services**

Advisor provides personalized comprehensive and issue specific financial planning services, consultations and investment advisory services. A detailed description is provided in **Item 5, Fees and Compensation**, so that clients and prospective clients can review the services and description of fees more thoroughly. The following descriptions of client agreements define typical client relationships.

#### ***Financial Planning Agreement***

Financial planning can be described as guiding individuals through the process of identifying financial concerns and goals and developing integrative strategies to address concerns and accomplish goals. The role of a financial advisor is to facilitate the process of helping clients determine financial issues and to collaborate with clients on developing a comprehensive, integrative personal financial plan.

Advisor provides advisory services in the form of comprehensive and issue specific financial plans. These services do not involve active management of client investment portfolios. Instead, comprehensive planning services examine a client’s overall financial situation, specifically including (but not limited to) the areas of financial position (e.g., cash flow and net worth), protection plans (e.g., insurance), investment goals (e.g., education, home purchase), retirement, strategic tax planning and estate plan review. Issue specific planning services focus on specific areas of client concern and may not take all important financial issues into consideration.

Advisor also provides consulting services to clients wanting advice on one or more specific areas of concern. Consultation services can include discussions about and recommendations on non-securities matters. Advisor also provides consulting services to clients having non-managed accounts (assets under advisement) such as 401(k), 403(b), profit sharing plans, etc.

Clients have sole discretion whether or not to implement the investment advice and specific recommendations provided as part of the financial plan.

#### ***Advisory Service Agreement for Asset Management Services***

All aspects of a client’s financial situation are reviewed. Realistic and measurable investment objectives are established. Strategies are developed to address investment objectives. Both objectives and strategies are continuously reviewed to facilitate alignment with a client’s financial situation.

Advisor provides continuous and on-going investment portfolio management and supervision, including executing transactions when necessary. A client’s financial situation and investment objectives are documented by developing a personalized financial plan and/or in the Advisor’s Client Relationship Management (CRM) System.

Agreements may not be assigned without client consent.

### **Limits Advice to Certain Types of Investments**

Advisor provides investment advice on the following types of investments:

- Exchange-listed securities (including ETNs and ETFs)
- Securities traded over-the-counter
- Foreign issues
- Warrants
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Municipal securities
- Variable life insurance
- Variable annuities
- Mutual fund shares
- United States government securities
- Option contracts on securities and commodities
- Interests in partnerships investing in real estate and in oil and gas interests

Although Advisor generally limits its advice to the investment products listed previously, Advisor reserves the right to offer advice on any product that may be suitable for each client's specific circumstances, needs, goals and objectives. Please refer to **Item 8, Methods of Analysis, Investment Strategies and Risk of Loss** for more information.

### **Tailor Advisor Services to Individual Needs of Clients**

Advisor's services are always provided based on the specific needs of the individual client. Clients are given the ability to impose restrictions on their accounts, including specific investment selections and sectors. However, Advisor will not enter into an investment advisor relationship with a client whose investment objectives may be considered incompatible with Advisor's investment philosophy or strategies or where the prospective client seeks to impose unduly restrictive investment guidelines.

### **Wrap-Fee Program versus Portfolio Management Program**

In traditional management programs, advisory services are provided for a fee but transaction services are billed separately on a per-transaction basis. In wrap-fee programs, advisory services and transaction services are provided for one fee. Advisor does not act as a portfolio manager of or sponsor wrap fee programs.

### **Client Assets Managed by Advisor**

As of December 31, 2011, the amount of client assets managed by Advisor totaled \$198,024,177, all managed on a discretionary basis.

## **Item 5 – Fees and Compensation**

In addition to the information provide in **Item 4, Advisory Business**, this section provides details regarding Advisor's services along with descriptions of each service's fees and compensation arrangements.

## **Financial Planning Services**

Advisor offers financial planning services by offering analyses and recommendations in areas including, but not limited to:

- Cash flow and management
- Protection planning (e.g., disability, health, life, long term care, etc.)
- Investment planning (e.g., investment portfolio review, stock options)
- Retirement planning
- Tax planning
- Estate planning

Advisor's services do not include legal or tax advice. Advisor's investment advisor representatives ("representatives") meet with clients to gather information and documentation needed to perform an analysis and review of a client's situation as well as his or her financial needs and goals. One or more meetings may be required in order to gather all needed information and determine the services best suited to help meet the client's needs. Advisor and its representatives rely on the information provided by clients. Therefore, it is very important that the information provided by clients is accurate and complete. Advisor and its representatives are not responsible for verifying the information supplied by clients. Clients are also urged to work closely with their accountant, attorney, or other professionals regarding their financial and personal situation.

After completing a review and analysis of the information and documents received, the representatives develop their analyses and recommendations and then present to the client either a comprehensive or issue specific financial plan. These plans can be oral or written, as the client wishes. A comprehensive plan focuses on a client's overall financial situation and specifically covers the areas of financial position (e.g., cash flow), protection (e.g., insurance), investment, retirement, tax and estate planning. An issue specific plan focuses only on one or more specific area(s) of client concern, and clients should be aware that other important issues may not be taken into consideration when Advisor's representatives develop their analyses and recommendations.

Financial planning services can be billed on either a fixed or hourly basis. The client and Advisor's representatives together determine the method of billing. Advisor's representatives provide a quoted fixed fee to clients before any services are provided. If services are contracted for on an hourly basis, Advisor provides an estimate of the hours needed to complete the service. If more time is needed than the original estimate, Advisor's representatives contact clients to receive permission to continue. Clients are billed the actual time expended on the services.

If billed on a fixed basis, fees generally fall within one of the following categories:

<u>Service</u>	<u>Fixed Fee</u>
Comprehensive Planning-Advanced	\$7,500 - \$30,000
Comprehensive Planning-Financial Independence	\$3,500 – \$5,000
Comprehensive Planning	\$3,000 – \$5,000
Comprehensive Financial Review	\$1,500 – \$2,500

Comprehensive Planning- Advanced involves extensive coordination with other advisors (business, estate, legal, tax) in developing a comprehensive personal financial plan. Advanced planning issues include business succession as well as financial legacy planning to preserve and transfer wealth.

Comprehensive Planning - Financial Independence focuses on the migration to and preservation of financial independence. The planning process examines and illustrates a myriad of financial independence scenarios. A matrix of variables (i.e., age, income need, investment return on both non-

qualified and qualified portfolios, inflation, long-term care, etc.) are examined to determine a most realistic financial independence scenario. This planning service focuses intensely on financial independence. The variables are assessed to determine a plausible financial independence plan. For example:

- How is the client's capital depletion rate (i.e., burn rate on money) throughout retirement impacted by a 1% - 2% difference on investment return during the first ten years of retirement?
- How does reducing the dollar specific income need during the second decade impact the capital depletion rate?
- What is the sensitivity of exercising stock options at various share prices in achieving an increasing degree of financial independence?

There are other questions that are also asked and answered as a part of this service. This service helps clients have a clear understanding of how to accomplish and preserve their own financial independence.

If billed on an hourly rate, fees are generally charged as follows:

<u>Position</u>	<u>Hourly Rate</u>
Principal CFO	\$475
Personal CFO	\$325
Personal CFO Associate	\$195

Advisor also bills for client administrator time expended for various administrative functions performed on client's behalf. This time is billed at the rate of \$125 per hour.

Both fixed and hourly fees are negotiable depending on the complexity of the client's financial situation, the actual services requested and the representative providing the services. One-half of the quoted fee is due at the time the Client Agreement is signed with the remainder of the fee due upon completion of the services and receipt of Advisor's billing statement.

Clients contracting for a financial plan who also contract for asset management services receive on-going financial planning services. These ongoing financial planning services will continue as long as there is an asset management contract in place between Advisor and the client. Clients can contact or visit with the Advisor's representatives as needed to discuss anything included in the original financial plan and can have their financial plan reviewed and updated any time at no cost.

Ongoing financial planning services are generally provided at no additional charges. However, for those clients who do not have sufficient assets under management (as determined by Advisor's representatives), a fixed fee of up to \$10,000 per year is charged. If charged, this fixed fee is negotiable based on other advisory services provided by Advisor, the time anticipated to be used in providing ongoing services and the representative providing the services. Fees are billed quarterly in arrears and due upon receipt of a billing statement from Advisor.

Services terminate upon presentation of the financial plan unless clients receive on-going financial planning services due to an existing asset management agreement. Either party can terminate services at any time by providing written notice to the other party. Termination is effective upon receiving that notice. If services are terminated within five business days of executing the client agreement, services are terminated without penalty. If terminated after five business days but before presentation of the plan, fees are prorated and clients are responsible for the time and effort expended by Advisor prior to receipt of the termination notice. For fixed fees, this is determined by calculating the percentage of the requested services that have been completed at the time of termination. For ongoing services charged as a fixed fee, this is calculated by the number of days that services were provided in the quarter. Advisor provides the client with a billing statement detailing the services provided, fees earned and the prorated refund due to or fees due from client. If the financial plan has been presented to client there is no refund of fees.



Clients have sole discretion about whether or not to contract for Advisor's services. In addition, clients have sole discretion about whether or not to implement any financial planning recommendations made by Advisor's representatives. They are free to select any financial institution and/or insurance agent to implement Advisor's recommendations.

### **Consultation Services**

Clients can also request advice on one or more specific areas of concern, and these consultations can be a one-time event or involve several meetings. Consultations can be billed on either a fixed or an hourly basis, and the client and Advisor's representatives together determine the method of billing. Advisor's representatives provide a quoted fixed fee to clients before any services are provided. If services are contracted for on an hourly basis, Advisor provides an estimate of the hours needed to complete the service. Clients have the final determination as to how long consultation services will continue.

If billed on a fixed basis, fees generally fall within one of the following categories:

<u>Service</u>	<u>Fixed Fee</u>
Comprehensive Planning - Advanced	\$7,500 - \$30,000
Comprehensive Planning – Financial Independence	\$3,500 – \$5,000
Comprehensive Planning	\$3,000 - \$5,000
Comprehensive Financial Review	\$1,950 - \$2,500

If billed on an hourly rate, fees are generally charged as follows:

<u>Position</u>	<u>Hourly Rate</u>
Principal CFO	\$475
Personal CFO	\$325
Personal CFO Associate	\$195

Advisor also bills for client administrator time expended for various administrative functions performed on client's behalf. This time is billed at the rate of \$125 per hour. A retainer of one-half of the quoted fee is due at the time the client agreement is signed, with the remainder due upon completion of the requested services.

Services terminate upon completion of the consultations. However, either party can terminate services at any time by providing written notice to the other party. Termination is effective upon receiving that notice. If services are terminated within five business days of executing the client agreement, services are terminated without penalty. If terminated after five business days but before presentation of the plan, fees are prorated and clients are responsible for the time and effort expended by Advisor prior to receipt of the termination notice. For fixed fees, this is determined by calculating the percentage of the requested services that have been completed at the time of termination. Advisor provides the client with a billing statement detailing the services provided, fees earned and the prorated refund due to or fees due from client.

Clients have sole discretion about whether or not to contract for Advisor's services. In addition, clients have sole discretion about whether or not to implement any recommendations made or advice given by Advisor's representatives. They are free to select any financial institution and/or insurance agent to implement Advisor's recommendations and advice.

## **Assets Under Advisement Services**

Advisor also offers assets under advisement services to participants in benefit plans (e.g., 401(k) plans, profit sharing plans, etc.). When providing these services, Advisor reviews the client's financial situation, goals and objectives as well as the investment options available in the benefit plan. Advisor makes recommendations regarding asset allocation and investment selections for the investment portfolio in the plan.

Client has sole discretion whether or not to contract for advisement services available from Advisor. In addition, Client has sole discretion about whether or not to implement the recommendations or advice provided by Advisor. Advisor does not have trading authority over portfolio within the client plan. Client is responsible for executing transactions. Advisor does not act as custodian for any assets in the client's plan. Advisor does not provide management services for advisement accounts.

At client's option, these services can be provided on a one-time or an ongoing basis. One-time events are billed at an hourly rate that does not generally exceed \$500 per hour and are payable upon completion of the services. On-going services are billed as a percentage of the assets under advisement as follows:

<u>Value of Advisement Assets</u>	<u>Annual Percentage</u>
Under \$100,000	1.35%
\$100,001 - \$500,000	1.25%
\$500,001 - \$1,250,000	1.15%
\$1,250,001 - \$2,000,000	1.10%
\$2,000,001 - \$4,500,000	1.00%
\$4,500,001 - \$7,500,000	0.90%
\$7,500,001 - \$10,000,000	0.80%
\$10,000,001 and Above	0.70%

Ongoing fees are billed at the beginning of each quarter and are based on the total value of advisement assets as of the end of the previous quarter. All fees are negotiable based on the complexity of the client's situation, the actual services requested and the representative providing the services.

Fees are deducted from a client's account and the client must provide the account custodian with written authorization to have fees deducted from an account and paid directly to Advisor. At least quarterly, the account custodian will send account statements to clients that include a listing of advisory fees deducted from the account. Clients should review account statements received from their account custodian and verify that appropriate advisory fees are being deducted.

On-going services are automatically renewed on the same terms and conditions at the one-year anniversary of the date the original client agreement was signed unless terminated by the parties. If the client's circumstances or fees charged change, then a new client agreement is required.

One-time services automatically terminate upon completion. All services can be terminated by either party at any time by providing written notice to the other party. Termination is effective immediately upon receipt of the notice. Clients are responsible for the time Advisor spends providing services until the effective date of termination. Advisor sends a billing statement to clients detailing the prorated charges and the fee due from or refund due to the client.

## **Assets Management Services**

Advisor offers investment supervisor services that include giving continuous investment advice and/or making investments for the client based on the individual needs and objectives of the client. Advisor offers a customized and individualized investment program providing clients management services

regarding allocations among various asset classes, ongoing assistance with evaluating and selecting investments, adjusting and rebalancing portfolios. Advisor provides these services on both a non-discretionary and discretionary basis. If provided on a non-discretionary basis, Advisor will always contact the client before implementing any transactions in an account. If provided on a discretionary basis, Advisor makes all decisions to buy, sell or hold securities, cash or other investments in the managed account in Advisor's sole discretion without consulting with the client before making any transactions. Clients must provide Advisor with written authorization to exercise this discretionary authority, and they can place reasonable restrictions and limitations on the discretionary authority. See **Item 16, Investment Discretion**, for additional discussion on discretionary and non-discretionary authority.

Clients contracting for Advisor's asset management services must establish an account at a qualified account custodian. Advisor recommends the use of Pershing, LLC. Neither Advisor nor its representatives maintain custody of client assets. Advisor's representatives assist clients in establishing an account at the qualified custodian. There is no minimum required to establish or maintain a managed account.

Fees for management services are charged as an annual percentage of assets under management and Advisor uses the following fee schedule to determine the annual percentage fee charged:

<u>Account Value</u>	<u>Annual Percentage</u>
Under \$100,000	1.35%
\$100,001 - \$500,000	1.25%
\$500,001 - \$1,250,000	1.15%
\$1,250,001 - \$2,000,000	1.10%
\$2,000,001 - \$4,500,000	1.00%
\$4,500,001 - \$7,500,000	0.90%
\$7,500,001 - \$10,000,000	0.80%
\$10,000,001 and Above	0.70%

Fees are billed at the beginning of each quarter and are based on the total value of account assets as of the end of the previous quarter. If an account is created at any time other than the beginning of a quarter, the fee will be prorated based on the number of days that services are actually provided in the quarter. For example, if a client creates and funds an account on January 5, the client is billed for a full quarter less the 5 unmanaged days before the account was funded.

Fees are generally deducted from a client's account but clients can also request to have fees billed directly to them. If deducted from an account, the client must provide the account custodian with written authorization to have fees deducted from an account and paid directly to Advisor. At least quarterly, the account custodian will send account statements to clients that include a listing of advisory fees deducted from the account. Clients are also able to access their accounts online and view account activity, including advisory fees charged and deducted from the account. Clients should review account statements received from their account custodian and verify that appropriate advisory fees are being deducted. If fees are billed directly to clients, they are due immediately upon receipt of the billing statement from Advisor.

Asset management services automatically renew on the one year anniversary of the original client agreement being signed. Services are renewed on the same terms and conditions as contained in the original agreement. However, if there is a change in services or fees, a new client agreement is required.

Pershing LLC does not charge a separate fee for maintaining custody of managed client accounts although other custodians may do so. All custodians can charge brokerage commissions and/or transaction fees directly to the client. Advisor does not receive any portion of the commissions or fees from either the custodian or from the client. In addition, the client may incur certain charges imposed by

third parties other than Advisor in connection with investments made through the client's account, including, but not limited to, mutual fund sales loads, 12(b)-1 fees and surrender charges, variable annuity fees and surrender charges and IAR and qualified retirement plan fees.

Either party can terminate the agreement for services by providing written notice to the other party. Termination is effective 30 days after receipt of the termination notice. During that time, Advisor will continue any services previously begun for client's account but will not begin any new services unless specifically instructed to do so by client. If services are terminated within five business days of executing the client agreement, the agreement will be terminated without penalty and no fees will be charged for services provided in the first five business days. If services are terminated after the initial five business day period, fees will be prorated based on the number of days that services were provided prior to receipt of the termination notice. If services are terminated during the first partial billing period, Advisor will bill the client for the number of days that services were provided. If services are terminated at any time after completion of the first partial billing period, fees are prorated based on the number of days that services were provided and Advisor will refund any prepaid, unearned fees.

### **Online Account Access for Management Services**

Advisor may be given access to a client's electronic user identification and password information in order to provide discretionary management services for assets custodied at certain broker/dealers, benefit plan sponsors, variable product sponsors, etc. This online access may provide Advisor with custody pursuant to rules set forth by the Securities and Exchange Commission. (See **Item 15, Custody**, for additional discussion.) When utilizing this online access, Advisor limits its actions to reviews and implementing transactions in client holdings in the managed account. Advisor will not close or liquidate an account, will not change beneficiaries or contribution amounts, will not change the account address and will not transfer monies in and out of accounts. Advisor's authority and limitations are detailed on the log-in authorization form signed by the client, and the client can revoke Advisor's online access authorization at any time.

Clients utilizing this online discretionary management service are charged 0.4% per year, billed quarterly in advance, with fees calculated based on the total value of the online access account assets as of the end of the previous quarter. Certain accounts are eligible to receive a fee waiver for Advisor's asset management services. For example, Advisor may provide asset management services under a fee waiver arrangement if the servicing representative has sold the investments to the client and/or the transfer of the client's investments to a new account is prohibitively expensive. Advisor has the discretion to determine for which accounts the fee waiver arrangement is a suitable option. Advisor periodically reassesses whether accounts remain eligible for the fee waiver option. The fee option applicable to clients' accounts are specified in the client agreement.

Clients must establish a managed account at Pershing, LLC even if the online access is provided for accounts custodied elsewhere. Advisor's fees are deducted from the clients' account held at Pershing, LLC, and clients must provide Pershing, LLC with written authorization to have fees deducted from their account and paid directly to Advisor. At least quarterly, Pershing, LLC will send account statements to clients that include a listing of advisory fees deducted. Clients are also able to access their accounts online and view account activity, including advisory fees charged and deducted from the account. Clients should review their account statements and verify appropriate fees are being deducted.

### **Use of Unaffiliated Strategists**

When managing assets, Advisor may use one or more unaffiliated investment advisor strategists to provide trade recommendations for client accounts. Advisor has the sole discretion to determine whether or not to implement these recommendations for client accounts. If account assets are allocated based on the strategists' recommendations, then clients pay a higher total advisory fee ranging from .01% to .60% than clients pay if their assets are not allocated based on the strategists' recommendations. This additional fee varies based upon the strategists used and is also reflective of the strategy used for each

client. Advisor's compensation is not increased if trade recommendations are provided for client accounts. Any additional compensation charged to clients attributable to the allocation of clients' accounts based on the trade recommendations is collected by Advisor from clients (in the same manner as Advisor's fee is collected) and paid by Advisor to the unaffiliated strategists. The strategists are only compensated based on the value of client assets advised by the particular strategists.

### **Additional Compensation**

Clients have sole discretion about whether or not to contract for Advisor's services. In addition, clients have sole discretion about whether or not to implement any recommendations made by Advisor's representatives. If clients do decide to implement recommendations, they are responsible for taking any actions or implementing any transactions required. Clients are free to select any broker/dealer and/or insurance agent to implement Advisor's recommendations.

Clients should be aware that Advisor's representatives may be licensed insurance agents. If clients elect to follow Advisor's recommendations regarding insurance products and select one of Advisor's representatives to implement the recommendations, the representative could receive commissions. This is a potential conflict of interest since the representative could earn advisory fees in his or her capacity as an investment advisor representative and could also earn commissions on insurance products sold in his or her capacity as an independently licensed insurance agent.

Please see **Item 10, Other Financial Activities and Affiliations**, for additional discussion on this conflict of interest

From time to time, Advisor may receive expense reimbursement for travel and/or marketing expenses from distributors of investment and/or insurance products. Travel expense reimbursements are typically a result of attendance at due diligence and/or investment training events hosted by product sponsors. Marketing expense reimbursements are typically the result of informal expense sharing arrangements in which product sponsors may underwrite costs incurred for marketing such as advertising, publishing and seminar expenses. Although receipt of these travel and marketing expense reimbursements are not predicated upon specific sales quotas, the product sponsor reimbursements are typically made by those sponsors for whom sales have been made or it is anticipated sales will be made. Advisor and its representatives endeavor at all times to put the interest of the clients first as a part of their fiduciary duty. However, clients should be aware that the receipt of additional compensation through nominal sales awards, expense reimbursements, etc. creates a conflict of interest that may impact the judgment of the representatives when making advisory recommendations.

### **Comparable Services**

Advisor believes its fees for advisory services are reasonable with respect to the services provided and the fees charged by other investment advisors offering similar services. However, lower fees for comparable services may be available from other sources.

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

Performance-based fees are defined as fees based on a share of capital gains on or capital appreciation of the assets held in a client's account. Advisor does not receive performance-based fees.

## **Item 7 – Types of Clients**

Advisor generally provides investment advice to the following types of clients.

- Individuals (including high net worth individuals)
- Banks or thrift institutions
- Trusts, estates, or charitable organizations
- Corporations or business entities other than those listed above

### **Minimum Investment Amounts Required**

Advisor does not have any minimum requirements for opening or maintaining an account.

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

### **Methods of Analysis**

Security analysis methods may include charting, fundamental analysis, technical analysis, and cyclical analysis. Advisor uses fundamental analysis when considering investment strategies and recommendations for clients. Fundamental analysts evaluate a company or security by attempting to measure its intrinsic value. In other words, fundamental analysts try to determine its true value by looking at all aspects of the business, including both tangible factors (e.g., machinery, buildings, land, etc.) and intangible factors (e.g., patents, trademarks, “brand” names, etc.). Fundamental analysis also involves examining related economic factors (e.g., overall economy and industry conditions, etc.), financial factors (e.g., company debt, interest rates, management salaries and bonuses, etc.), qualitative factors (e.g., management expertise, industry cycles, labor relations, etc.), and quantitative factors (e.g., debt-to-equity and price-to-equity ratios).

The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price in hopes of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short).

There are risks in using any kind of analysis. Fundamental analysis takes a long-term approach to analyzing markets, often looking at data over a number of years. The data reviewed is released over years (e.g., quarterly financial statements). Therefore, fundamental analysis could mean a gain is not realized until a security's market price rises to its “correct” value over the long run--perhaps several years. The less frequent trading practices of fundamental analysis could also have a positive or negative impact on a client's portfolio value, but likely has reduced brokerage and transaction costs.

### **Investment Strategies**

Advisor's primary investment strategy is core and satellite asset allocation. The core strategy uses active and passively managed mutual funds, alternative investments, ETFs and ETNs. The satellite strategy primarily uses long and short ETFs, including leveraged ETFs. Portfolios are globally diversified to control the risk associated with financial markets.

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. Clients may change these objectives at any time. Each client executes an Investment Policy Statement that documents their objectives and their desired investment strategy.

Other strategies may include:

- Long-term purchases (Investments held at least a year)
- Short-term purchases (Investments held less than a year)
- Trading (Investments held less than 30 days)
- Short sales (Borrowing securities in anticipation of a price decline and returning an equal number of securities at some future time)

- Margin transactions (Investor pays for part of the purchase and borrows the rest from a brokerage firm; e.g., investor buys \$5,000 worth of stock in a margin account by paying for \$2,500 and borrowing \$2,500 from a brokerage firm. Clients cannot borrow stock from Advisor.)
- Option writing (Including covered options, uncovered options or spreading strategies.) (Note: options are contracts giving the purchaser the right to buy or sell a security, such as stocks, at a fixed price within a specific period of time.)

## **Risk of Loss**

Investing in securities involves a risk of loss that clients should be prepared to bear, including loss of original principal. However, clients should be aware that past performance of any security is not necessarily indicative of future results. Therefore, no current or prospective client should assume that future performance of any specific investment or investment strategy will be profitable. Advisor does not provide any representation or guarantee that client goals will be achieved.

Investing in securities involves risk of loss. Advisor's investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- Market Risk. Either the market as a whole, or the value of an individual company, goes down, resulting in a decrease in the value of client investments. This is referred to as systemic risk.
- Equity (Stock) Market Risk. Common stocks are susceptible to fluctuations and to volatile increases/decreases in value as their issuers' confidence in or perceptions of the market change. Investors holding common stock (or common stock equivalents) of any issuer are generally exposed to greater risk than if they hold preferred stock or debt obligations of the issuer.
- Company Risk. There is always a certain level of company or industry specific risk when investment in stock positions. This is referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that a company may perform poorly or that its value may be reduced based on factors specific to it or its industry (e.g., employee strike, unfavorable media attention).
- Options Risk. Options on securities may be subject to greater fluctuations in value than investing in the underlying securities. Purchasing and writing put or call options (the right to sell or buy a specified amount of an underlying asset at a set price within a set time) are highly specialized activities and involve greater than ordinary investment risk.
- Fixed Income Risk. Investing in bonds involves the risk that the issuer will default on the bond and be unable to make payments. In addition, individuals depending on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk.
- ETF and Mutual Fund Risk. ETF and mutual fund investments bear additional expenses based on a pro-rata share of operating expenses, including potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities held by the ETF or mutual fund. Clients also incur brokerage costs when purchasing ETFs.
- Management Risk. Client investments also vary with the success and failure of Advisor's investment strategies, research, analysis and determination of portfolio securities. If Advisor's strategies do not produce the expected returns, the value of a client's investments will decrease.

When you purchase securities, you may pay for the securities in full or borrow part of the purchase price from your account custodian or clearing firm. If you borrow part of the purchase price then you are

engaging in margin transactions and there is risk involved with this. The securities held in your margin account are collateral for the custodian or clearing firm that loaned you the money. If those securities decline in value, then the value of the collateral supporting your loan also declines. As a result, the brokerage firm is required to take action in order to maintain the necessary level of equity in your account. The brokerage firm may issue a margin call and/or sell other assets in your account.

It is important that you fully understand the risks involved in trading securities on margin, including:

- You can lose more funds than you deposit in your margin account
- The account custodian or clearing firm can force the sale of securities or other assets in your account
- The account custodian or clearing firm can sell your securities or other assets without contacting you
- You are not entitled to choose which securities or other assets in your margin account may be liquidated or sold to meet a margin call
- The account custodian or clearing firm may move securities held in your cash account to your margin account and pledge the transferred securities
- The account custodian or clearing firm can increase its "house" maintenance margin requirements at any time and are not required to provide you advance written notice
- You are not entitled to an extension of time on a margin call

### **Primarily Recommend One Type of Security**

Advisor primarily recommends mutual funds and exchange traded funds (ETFs).

Different mutual fund categories have different risk characteristics and investors should not compare different categories. For example, a bond fund and a stock fund that both have below average risk still have different risk/return potential (stock funds traditionally have higher risk/return potential). Risks are based on the investments held in the fund. For example, a bond fund faces interest rate risk and income risk and income is affected by the change in interest rates. A sector fund (investing in a single industry) is at risk that its price will decline due to industry developments. The following are some risks to consider when investing in mutual funds:

- **Call Risk:** A bond issuer may redeem high-yield bonds before maturity date due to falling interest rates.
- **Default Risk:** A bond issuer may fail to repay interest and principal.
- **Income Risk:** Dividends in a fixed income fund may decline due to falling interest rates.
- **Geology Risk:** Political events, natural disasters or financial problems may weaken a country or state's economy and cause investments to decline.
- **Industry Risk:** Stocks in a single industry may decline due to developments in that industry.
- **Inflation Risk:** Increases in the cost of living can reduce or eliminate a fund's actual returns when adjusted for inflation.
- **Manager Risk:** A manager may not execute the fund's investment strategy in a timely or effective manner.

In simple terms, ETFs are funds that hold all the securities in an index (e.g., the U.S. Dow) and trade like a stock. In an ETF, the manager's job is to keep the portfolio as close to its index as possible rather than to make judgments on a single security. To keep the portfolio aligned with its index, the manager must buy the stock in the index regardless of the security's price. There are also risks associated with ETFs:

- **Geographical Limitations:** The United States has many ETF products but some countries have only a few ETFs available with limited products (e.g., only large-cap products).
- **Trading Limitations:** If ETFs have large trading volumes, the advantage of purchasing it over an index or equity diminishes. In addition, active ETFs can increase trading fees and expenses.



- Investment Horizon Limitation: The trading opportunities of an ETF may be more suitable for a short-term investor than a long-term investor.
- Inactivity Limitation: Some ETFs are not as actively traded as others and investing in actively managed mutual fund may be more effective.
- Tax Limitations: Tax laws vary from state to state and country to country. For foreign investments, it may be more advantageous to find another product.

### **Item 9 – Disciplinary Information**

Advisor has no legal or disciplinary events that are material to a client's or prospective client's evaluation of Advisor's business or the integrity of its management. Therefore, this item is not applicable to Advisor's brochure.

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

Advisor does not have a related person that is:

- A broker/dealer, municipal securities dealer or government securities dealer or broker
- An investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund)
- A investment adviser or financial planner
- A futures commission merchant, commodity pool operator or commodity trading advisor
- A banking or thrift institution
- A lawyer or law firm
- Accountant or accounting firm
- A pension consultant
- A real estate broker or dealer
- A sponsor or syndicator of limited partnerships.

Advisor is an independent registered investment registered advisor and only provides investment advisory services. It is not engaged in any other business activities and offers no other services except those described in this Disclosure Brochure. However, while Advisor does not sell products or services other than investment advice, its representatives may sell other products or provide services outside of their role as investment advisor representatives.

### **Insurance Sales**

Some of Advisor's representatives are also independently licensed to sell insurance products through various insurance companies. When acting in this capacity, they may receive fees or commissions for selling these products. Clients are under no obligation to direct insurance transactions to insurance companies with which Advisor's representatives may be licensed. Suitable insurance and investment products may be available from other companies.

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

#### **Code of Ethics**

According to the *Investment Advisers Act of 1940*, an investment advisor is considered a fiduciary. As a fiduciary, it is an investment advisor's responsibility to provide fair and full disclosure of all material facts.

In addition, an investment advisor has a duty of utmost good faith to act solely in the best interest of each of its clients. Advisor and its representatives have a fiduciary duty to all clients. Advisor has established a Code of Ethics which all employees and associated persons must read. They must then execute an acknowledgment stating that they understand and agree to comply with Advisor's Code of Ethics. The fiduciary duty of Advisor and its associated persons to clients is considered the core underlying principle for Advisor's Code of Ethics and represents the expected basis for all associated persons' dealings with clients. Advisor has the responsibility to make sure that the interests of clients are placed ahead of it or its associated persons' own investment interests. All associated persons will conduct business in an honest, ethical and fair manner. All associated persons will comply with all federal and state securities laws at all times. Full disclosure of all material facts and potential conflicts of interest will be provided to clients prior to services being conducted.

All associated persons have a responsibility to avoid circumstances that might negatively affect or appear to affect the associated persons' duty of complete loyalty to their clients. This section is only intended to provide current clients and potential clients with a description of Advisor's Code of Ethics. If current clients or potential clients wish to review Advisor's Code of Ethics in its entirety, a copy may be requested from any of Advisor's associated persons and a copy will be provided promptly.

Some of Advisor's representatives have received designation as a Certified Financial Planner<sup>™</sup> (CFP<sup>®</sup>). In addition to abiding by Advisor's Code of Ethics, these representatives also abide by the Code of Ethics and Responsibility Code of the Certified Financial Planner<sup>™</sup> Board of Standards, Inc. The Code of Ethics and Responsibility Code requires CFP<sup>®</sup> designees to not only comply with all applicable laws and regulations but to also act in an ethical and professional responsible manner in all professional services and activities. The principles guiding CFP<sup>®</sup> designees are:

- Integrity
- Objectivity
- Competence (in providing services and maintaining knowledge and skills to do so)
- Fairness (to clients, principals, partners and employers and disclosing any conflicts of interest in providing services)
- Confidentiality (keeping all client information confidential without the specific client consent unless in response to legal process or in defense of charges of wrongdoing or civil dispute)
- Professionalism
- Diligence

Clients can obtain a copy of the Code of Ethics and Responsibility Code by requesting a copy from one of Advisor's representatives.

### **Participation in Client Transactions and Personal Trading**

Advisor and its representatives may buy or sell securities or have an interest or position in a security for their personal account that they also recommend to clients. They also recommend the purchase or sale of different securities for different clients at different times. This could result in contrary advice being given or action taken on behalf of clients and in the personal accounts of Advisor and its representatives.

Advisor is now and will continue to be in compliance with *The Insider Trading and Securities Fraud Enforcement Act of 1988*. To prevent conflicts of interest, Advisor developed written supervisory procedures that include personal investment and trading policies for its representatives, employees and their immediate family members (collectively, associated persons):

- Associated persons cannot prefer their own interests to that of the client
- Associated persons cannot purchase or sell any security for their personal accounts prior to implementing transactions for client accounts

- Associated persons cannot buy or sell securities for their personal accounts when those decision are based on information obtained as a result of their employment, unless that information is also available to the investment public upon reasonable inquiry
- Associated persons are prohibited from purchasing or selling securities of companies in which any client is deemed an “insider”
- Associated persons are discouraged from frequent personal trading
- Associated persons are generally prohibited from serving as board members of publicly-traded companies unless an exception has been granted by Advisor's Chief Compliance Officer

Any associated person not observing Advisor's policies is subject to sanctions up to and including termination.

Advisor's Chief Compliance Officer reviews all employee trades on a quarterly basis. The Chief Compliance Officer's trades are reviewed by Advisor's Chief Executive Officer. These reviews help ensure that advisory clients receive preferential treatment and no employee trading impacts the market. Most employee trades are small in size and in widely held mutual funds, exchange-traded funds or securities. The Chief Compliance Officer must give pre-approval before any large trades or trades in individual securities also held in client accounts can be made.

## **Item 12 – Brokerage Practices**

Clients wishing to implement Advisor's advice are free to select any financial institution or investment advisor they wish and are so informed. If Advisor assists in implementing any recommendations, Advisor has a duty to ensure that the client receives the best execution possible. Best execution does not necessarily mean the lowest price but includes the overall services received from a broker/dealer.

Clients should understand that not all investment advisors require the use of a particular broker/dealer. While Advisor attempts to seek best execution for client accounts, Advisor may be unable to achieve the most favorable execution of client transactions if clients direct the use of a specific custodian. There may be other platforms that are less expensive for clients and may provide faster execution capabilities.

If clients contract with Advisor for any advisory services through which Advisor will have trading authorization or will be responsible for implementing transactions in the client's account(s), they will be required to establish a brokerage account with a qualified custodian. Advisor and its representatives will not act as custodian for any client account or have direct access to any client's funds or securities except for the ability to have advisory fees deducted from the client's account and paid to Advisor. The qualified custodian provides Advisor with access to services that can include brokerage, custody, research and access to mutual funds and other investments that may otherwise be available only to institutional investors or would require a significantly higher minimum initial investment.

The qualified custodian may also make available to Advisor other products and services that benefit Advisor but may not benefit its clients' accounts. Some of these other products and services assist Advisor in managing and administering client accounts. These include software and other technology that:

- Provide access to client account data (such as trade confirmation and account statements)
- Facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts)
- Provide research, pricing information and other market data
- Facilitate payment of Advisor's fees from its clients' accounts
- Assist with back-office functions, recordkeeping and client reporting.

Many of these services generally may be used to service all or a substantial number of Advisor's accounts, including accounts not maintained at a specific client's selected custodian. Custodians may

also make available other services intended to help Advisor manage and further develop its business enterprise and these services may include:

- Consulting, publications and conferences on practice management
- Information technology
- Business succession
- Regulatory compliance
- Marketing

In addition, the qualified custodian may make available, arrange and/or pay for these types of services rendered to Advisor by independent third party providing these services to Advisor. As a fiduciary, Advisor endeavors to act in its clients' best interests. If Advisor recommends that clients maintain their assets in accounts at a specific qualified custodian, that recommendation may be based in part on the benefit to Advisor of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by the recommended custodian. This may create a potential conflict of interest.

### **Block Trades**

Transactions implemented by Advisor for client accounts are generally effected independently unless it decides to purchase or sell the same securities for several clients at approximately the same time. This process is referred to as aggregating orders, batch trading or block trading and is used to obtain best execution, to negotiate more favorable commission rates or to allocate differences in prices, commissions or other transaction costs (if orders were placed independently) equitably among clients. Under trade blocking procedures, purchase and sales orders placed on any given day are generally averaged relative to price and allocated among clients on a prorata basis. If and when Advisor decides to block client orders for the purchase or sale of securities, including securities in which associated persons may invest, Advisor does so in accordance with the parameters set forth in the SEC No-Action Letter, *SMC Capital, Inc.* Advisor does not receive any additional compensation or remuneration as a result of blocking trades.

In the event that Advisor determines a block trade is not appropriate under the particular circumstances, the allocation will be made based on other relevant factors, including:

- 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 that have similar mandates
- Allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities expected to produce similar investment results if these securities can be purchased by other accounts
- If an account reaches an investment guideline limit and cannot participate in an allocation, shares may be re-allocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed)
- With respect to sale allocations, allocations may be given to accounts low in cash
- In cases when a pro rata allocation of a potential execution would result in a de minimis allocation in one or more accounts, we may exclude the accounts from the allocation and the transactions may be executed on a pro rata basis among the remaining accounts
- In cases where small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

## Item 13 – Review of Accounts

### Account Reviews

Financial planning services without accompanying asset management services terminate upon presentation of the plan. Consultation services terminate upon completion of the consultations, as do one time advisement services. No reviews are performed for these accounts. However, Advisor recommends that clients have their financial situation reviewed and updated at least annually. If clients elect to undertake a review and update, a new client agreement will be required and additional fees will be charged. If clients contracting for a financial plan also contract for asset management services, they receive on-going services that can include a plan review and update at no additional charge.

Clients contracting for asset management services have their accounts reviewed at least quarterly. Each representative conducts his or her own account reviews. Although the calendar is the main triggering factor, account reviews are also conducted due to client request, due to a change in client circumstances, account holdings or investment objectives or due to unusual economic conditions or market activity.

Absent specific client instruction, accounts are reviewed relative to asset allocations in the client's portfolio(s), accuracy of portfolio holdings, continuing suitability of investment products and to check that account performance is still working toward the client's goals and objectives.

### Account Reports

Financial planning and consulting clients do not receive any account reports other than those included as a part of the services originally contracted for.

Asset management clients receive confirmation statements as trades occur in the accounts. In addition, they receive statements from Pershing LLC at least quarterly. Clients also have online access to account position and performance reports as prepared by Black Diamond Performance Reporting, LLC. Advisor does not provide any additional performance reports, position reports or account statements to clients.

## Item 14 – Client Referrals and Other Compensation

### Client Referrals

We may enter into agreements with unaffiliated solicitors (Referring Parties) to refer clients to us. If a client is referred to us by a solicitor, the solicitor provides the client with a copy of our Disclosure Brochure as required by Rule 204-3 of the *Investment Advisers Act of 1940*. The client also receives a copy of the solicitor disclosure statement containing the information set forth in Rule 206(4)-3 of the *Investment Advisers Act of 1940*. If a referred client enters into an investment advisory agreement with us, a referral fee is paid to the solicitor. The referral relationship does not result in clients being charged any fees over and above the normal advisory fees charged for the advisory services provided.

The referral agreements between us and the solicitors are in compliance with regulations as set out in 17 CFR §275.206(4)-3 and the Rules under the *Investment Advisers Act of 1940*.

### Other Compensation

For additional discussion on other compensation received by Advisor, its owners or its representatives, please refer to **Additional Compensation** under **Item 5, Fees and Compensation**, and **Item 10, Other Financial Industry Activities and Affiliations**. Please also see **Item 12, Brokerage Practices**, for discussion about the services and products Advisor may receive from Pershing LLC.

## Item 15 – Custody

Custody, as it applies to investment advisors, has been defined as having access or control over client funds and/or securities. Custody is not limited to physically holding client funds and securities. If an investment advisor has the ability to access or control client funds or securities, the investment advisor is deemed to have custody for purposes of the *Investment Advisers Act of 1940* and must ensure proper procedures are implemented. It should be noted that authorization to trade in client accounts is not deemed by regulators to be custody. Advisor is deemed to have custody of client funds and securities whenever it is given the authority to have fees deducted directly from client accounts. In addition, certain activities of Advisor are deemed to be custody pursuant to rules set forth by the Securities and Exchange Commission. In providing asset management services, certain clients may provide Advisor with user identification and password information to allow advisor access to client's online financial information. Advisor's use of client's user identification and password information is strictly limited to accessing client's account information for conducting discretionary asset management and for review purposes. (See **Item 5, Fees and Compensation** for further discussion about Advisor's limited authority.)

Advisor has developed internal policies and procedures to control for the risk associated with having access to and/or control over client funds and securities. Advisor does not directly hold any client funds or securities. Advisor has established procedures to ensure all client funds and securities for which Advisor provides asset management services are held at a qualified custodian (such as a broker/dealer or bank) in a separate account for each client under that client's name. Clients or an independent representative of the clients (other than an affiliated person of Advisor) are also notified promptly, in writing, of the qualified custodian's name, address and the manner in which the funds or securities are maintained if an account is opened and following any changes.

Clients receive statements, at least quarterly, from the broker/dealer, bank or other qualified custodian that holds and maintains client's investment assets. Advisor urges clients to carefully review any reports received directly or available online. When clients have questions about their account statements, they should contact Advisor or the qualified custodian preparing the statement.

Specific to accounts for which Advisor has custody beyond the ability to deduct advisory fees, Advisor has engaged an independent public accounting firm to perform an annual surprise verification examination. That public accounting firm is not affiliated with Advisor in any way. The purpose of such an examination is to verify that the funds and securities held in accounts actually exist and are located at the applicable qualified custodian.

## Item 16 – Investment Discretion

Asset management services can be provided on a non-discretionary or discretionary basis. If asset management services are provided on a non-discretionary basis, Advisor always contacts the client before implementing any transactions in an account. Clients must accept or reject Advisor's investment recommendations, including (1) the security being recommended, (2) the number of shares or units and (3) whether to buy or sell. Once these factors are agreed upon, Advisor is responsible for making decisions regarding the timing of the purchase or sale and the price at which it is bought or sold. Clients should know that if they are not able to be reached or are slow to respond to Advisor's request, it can have an adverse impact on the timing of implementing trades and Advisor may not achieve the optimal trading price.

If management services are provided on a discretionary basis, Advisor makes all decisions to buy, sell or hold securities, cash or other investments in the managed account in its sole discretion without consulting with the client before implementing any transactions. Clients must provide Advisor with written

authorization to exercise this discretionary authority. Clients can impose reasonable restrictions on management of their accounts.

When discretionary authority is granted, it is limited. Advisor does not have access to client funds and/or securities with the exception of having advisory fees deducted from the client's account and paid to Advisor by the account custodian. Any fee deduction is done pursuant to the client's prior written authorization provided to the account custodian.

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

Advisor and its representatives do not vote proxies or accept proxy materials on behalf of clients. All proxy materials are sent directly to clients from the product sponsor, custodian or transfer agent. The client has the ultimate responsibility for making all proxy-voting decisions.

### **Item 18 – Financial Information**

This item is not applicable to Advisor's brochure. Advisor does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Therefore, Advisor is not required to include a balance sheet for its most recent fiscal year. Advisor is not subject to a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Finally, Advisor has not been the subject of a bankruptcy petition at any time.

### **Customer Privacy Policy**

YellowBrickRoad Financial Advisors, LLC is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of non-public information that we collect from you may include information about your personal finances, information about your health to the extent that it is needed for the financial planning process, information about transactions between you and third parties, and information from consumer reporting agencies, e.g., credit reports. We use this information to help you meet your personal financial goals.

With your permission, we disclose limited information to attorneys, accountants, and mortgage lenders with whom you have established a relationship. You may opt out from our sharing information with these non-affiliated third parties by notifying us at any time by telephone, mail, fax, e-mail, or in person. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf.

We maintain a secure office to ensure that your information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment.

We do not provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our Company records and your personal records as permitted by law.

Personally identifiable information about you will be maintained while you are a client, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our privacy policy is expected to change. We are required by law to deliver this Privacy Notice to you annually, in writing.

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