



**Item 1 – Cover Page**

# **Baughman Wealth Advisors Inc.**

## **DBA Baughman Financial Group**

**2226 Westlake Drive, #6**

**Austin, TX 78746**

**(408) 354-4840**

**3/1/2012**

This Brochure provides information about the qualifications and business practices of Baughman Wealth Advisors. If you have any questions about the contents of this Brochure, please contact us at (408) 354-4840 or via email at [kbaughman@baughmanfinancial.com](mailto:kbaughman@baughmanfinancial.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Baughman Wealth Advisors is a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information that you may use to determine whether to hire or retain them. Additional information about Baughman Wealth Advisors is also available on the SEC's web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 - Material Changes

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This brochure, dated 3/1/2012 is a revised document that has been prepared to address updates to our investment advisory practices. We no longer utilize the services of Lockwood as a third party money manager; we now provide Advisor Directed Investment programs through First Allied Securities, Inc. and First Allied Advisory Services, Inc. This update is reflected in “Item 4 – Advisory Business Introduction” under the “Services” section, in “Item 5 – Fees and Compensation”, in “Item 12 – Brokerage Practices” under the “Soft Dollar” and “Directed Brokerage” sections and in “Item 16 – Investment Discretion.” We are also applying for registration with the State of Texas and the State of California. Once approved, we will withdraw from SEC registration.

Our last amendment to this brochure was 3/25/2011. We will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year which is December 31st. We will provide other ongoing disclosure information about material changes as necessary. We will also provide you with a new Brochure, as necessary, based on changes or new information. Currently, our Brochure may be requested at any time, without charge, by contacting J. Kurt Baughman at (408) 354-4840.

Additional information about Baughman Wealth Advisors is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by using a unique identifying number, known as a CRD number. The CRD number for Baughman Wealth Advisors is 148649. The SEC’s web site also provides information about any persons affiliated with Baughman Wealth Advisors who are registered, or are required to be registered, as investment adviser representatives of Baughman Wealth Advisors.

## Item 3 - Table of Contents

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<b>Item 1 – Cover Page.....</b>	<b>1</b>
<b>Item 2 - Material Changes .....</b>	<b>2</b>
<b>Item 3 - Table of Contents .....</b>	<b>3</b>
<b>Item 4 - Advisory Business Introduction .....</b>	<b>5</b>
1. Services .....	5
a. Financial Planning .....	6
b. Asset Management .....	7
2. Other Services .....	9
<b>Item 5 - Fees and Compensation.....</b>	<b>10</b>
1. Financial Planning/Consulting Fees .....	11
2. Asset Management Fee Schedule.....	12
Third Party Asset Management Providers .....	13
3. Other Fees.....	13
<b>Item 6 - Performance Based Fee and Side by Side Management .....</b>	<b>13</b>
<b>Item 7 - Types of Client(s).....</b>	<b>13</b>
<b>Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss .....</b>	<b>13</b>
1. Fundamental Analysis .....	13
2. Modern Portfolio Theory .....	14
3. Technical Analysis .....	14
4. Cyclical Analysis .....	15
5. Investment Strategy.....	15
6. Our Due Diligence .....	15
7. Risks .....	16
<b>Item 9 - Disciplinary Information .....</b>	<b>16</b>
<b>Item 10 - Other Financial Industry Activities and Affiliations.....</b>	<b>17</b>
<b>Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....</b>	<b>17</b>
1. General Information .....	17
2. Participation or Interest in Client Transactions and Personal Trading .....	17
2. Responsibility .....	18
3. Privacy Statement .....	18
4. Prohibited Acts.....	18
5. Conflicts of Interest.....	19

6. Business Continuation Plan.....	19
<b>Item 12 - Brokerage Practices .....</b>	<b>19</b>
1. Soft Dollars.....	19
a. Research.....	20
2. Brokerage for Client Referrals .....	20
3. Best Execution.....	20
4. Directed Brokerage .....	21
5. Trade Allocations .....	21
a. Trade Errors.....	21
<b>Item 13 - Review of Accounts .....</b>	<b>22</b>
1. Duty to Supervise.....	22
2. Reviews .....	22
3. Reports.....	22
<b>Item 14 - Client Referrals and Other Compensation.....</b>	<b>22</b>
<b>Item 15 - Custody.....</b>	<b>23</b>
<b>Item 16 - Investment Discretion .....</b>	<b>23</b>
<b>Item 17 - Voting Client Securities.....</b>	<b>24</b>
<b>Item 18 - Financial Information.....</b>	<b>24</b>
<b>Item 19 - Requirements for State Registered Advisers.....</b>	<b>24</b>
<b>Brochure Supplement - J. Kurt Baughman .....</b>	<b>25</b>
Item 1 – Cover Page.....	25
Item 2 - Educational Background and Business Experience.....	26
Item 3 - Disciplinary Information.....	27
Item 4 - Other Business Activities.....	27
Item 5 - Additional Compensation .....	27
Item 6 - Supervision.....	27
Item 7 - Requirements for State-Registered Advisers.....	27
<b>Glossary of Key Terms .....</b>	<b>28</b>

## Item 4 - Advisory Business Introduction

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Baughman Wealth Advisors Inc. DBA Baughman Financial Group ("Baughman") is a Registered Investment Adviser ("Adviser") which offers portfolio management services, consulting services, financial planning, insurance planning, retirement planning and estate planning. We use stocks, bonds, mutual funds and ETFs to create your customized portfolio. We are registered through and regulated by the United States Securities and Exchange Commission ("SEC").

We provide investment advice through investment adviser representatives ("advisor") associated with us. These individuals are appropriately licensed, qualified, and authorized to provide advisory services on our behalf. In addition, all advisors are required to have a college degree or four years of equivalent investment related experience, have displayed a high degree of integrity in previous business undertakings, have high moral and ethical standards and be committed to providing quality investment advice.

Baughman Wealth Advisors Inc., DBA Baughman Financial Group was founded in 2008 by Kurt Baughman, who serves as President and Chief Compliance Officer. We provide investment management services primarily to high net worth individuals and their families, trusts, estates and foundations; we may also provide services to corporate pension and profit-sharing plans, charitable organizations, endowments, corporations, and small businesses. We are committed to the precept that by placing the client's interests first, we will add value to the asset management process and earn the client's trust and respect. We value long term relationships among our clients whom we regard as strategic partners in our business.

### 1. Services

We provide various asset management and planning services, with an emphasis on individuals, their families, trusts, foundations and business owners. Our focus is on helping you develop and execute plans that are designed to build, manage and preserve your wealth.

As of 12/31/2011, we provided asset management services for 132 accounts with total assets under management of \$39,462,407.00.

This amount is managed on a discretionary basis which means, you have given us the authority to determine the following without your consent:

- Securities to be bought or sold for your account
- Amount of securities to be bought or sold for your account
- Broker- dealer to be used for a purchase or sale of securities for your account
- Commission rates to be paid to a broker or dealer for your securities transaction

While we may have trading discretion on your account (i.e., placing trades in your account without your approval), trading activity is generally limited to help minimize your trading costs. Trading may be required to meet initial allocation targets, after substantial cash deposits that require investment allocation, and/or after a request for a withdrawal that requires liquidation of a position. Additionally,

your account may be rebalanced or reallocated periodically in order to reestablish the targeted percentages of your initial asset allocation. You will be responsible for any and all tax consequences resulting from any rebalancing or reallocation of the account. We are not tax professionals and do not give tax advice. However, we will work with your tax professionals to assist you with tax planning. You will have the opportunity to meet with us periodically to review the assets in your account.

#### **a. Financial Planning**

We can provide analysis and recommendations for retirement, estate planning, income tax planning, life and disability insurance, investments, and college education planning. You can have us create a full financial plan or select any of the individual modules. Fee based financial planning is a comprehensive relationship which incorporates many different aspects of your financial position into an overall plan that is designed to meet your goals and objectives. The financial planning relationship consists of face to face meetings and ad hoc meetings with your other advisors (attorneys, accountants, etc.) as necessary.

Financial planning, including planning for retirement, as well as other financial goals such as education funding, planning for acquisition or startup of a business, or for acquiring real estate or other assets involves allocating pools of money to be invested for each goal, time horizon identified, asset allocation policy established and risk tolerance levels defined.

In performing financial planning services we typically examine and analyze your overall financial situation, which may include any of the following wealth management issues: Investments, insurance, liabilities, qualified plans and IRA distributions, stock options, business succession planning, durable power of attorney at incapacity, gifting to children/descendants, charitable gifting during life, titling of assets, selection of executor/trustee, distribution plan at death to spouse/descendants, and charitable inclinations at death. Our services may focus on any or all of these issues depending on the scope of our engagement with you.

You must agree to provide the information and documentation we request regarding your income, investments, taxes, insurance, estate plan, etc. You also must agree to discuss your investment objectives, needs and goals, and to keep us informed of any changes. We will work with you to create a plan that will serve as the roadmap to guide your wealth management program. We can also work with you to implement the plan and provide ongoing monitoring and updates.

We obtain information from a wide variety of publicly available sources to help us create your plan. We do not have any inside private information about any investments that are recommended. All recommendations developed by us are based upon our professional judgment and we cannot guarantee the results of any of our recommendations. You must decide what advice to follow.

If you engage us to perform these services, you will receive a written agreement detailing the services, fees, terms and conditions of the relationship. You will also receive this Brochure. You are under no obligation to implement recommendations through us. You may implement your plan through any financial organization or professional of your choice.

## **b. Asset Management**

With an Asset Management Account, you engage us to assist you in developing a personalized asset allocation program and custom-tailored portfolio designed to meet your unique investment objectives. The investments in the portfolio account may include mutual funds, ETFs, stocks, bonds, municipal securities, equity options, alternative investments, etc. The minimum initial investment in a managed account is \$500,000 however; this may be negotiable depending upon certain factors.

We offer third party management services and management services by our advisor, Kurt Baughman. We will recommend the level of service that we believe fits your unique financial circumstances. To determine what will be most appropriate for you, we will meet with you to discuss your financial circumstances, investment goals and objectives, and to determine your risk tolerance. We will ask you to provide statements summarizing current investments, income and other earnings, recent tax returns, retirement plan information, other assets and liabilities, wills and trusts, insurance policies, and other pertinent information. We will assist you in completing an Investment Questionnaire, which is designed to define your investment objectives and overall investment strategies by collecting relevant information. Your responses to the Investment Questionnaire will be relied upon to create Model Portfolios that are appropriate for your circumstances.

Our advice and ongoing management is always based upon your investment goals and objectives, risk tolerance, and the investment portfolio we have designed for you. We will monitor the account, trade as necessary, and communicate regularly with you. Your circumstances shall be monitored in quarterly and annual account reviews. These reviews will be conducted in person, by telephone conference, and/or via a written inquiry/questionnaire. We will work with you on an ongoing basis to evaluate your asset allocation as well as rebalance your portfolio to keep it in line with your goals as necessary. You will also receive our Advisory Agreement which describes what services you will receive and what fees you will be charged.

We will specifically:

- Review your present financial situation
- Monitor and track assets under management
- Provide portfolio statements, periodic rate of return reports and asset allocation statements
- Advise on asset selection
- Determine market divisions through asset allocation models
- Provide research and information on performance and fund management changes
- Build a risk management profile for you
- Assist you in setting and monitoring goals and objectives
- Provide personal consultations as necessary upon your request or as needed

You must notify us promptly when your financial situation, goals, objectives, or needs change.

You shall have the ability to impose reasonable restrictions on the management of your account, including the ability to instruct us not to purchase certain mutual funds, stocks or other securities.

These restrictions may be a specific company security, industry sector, asset class, or any other restriction you request within reason.

Under certain conditions, securities from outside accounts may be transferred into your advisory account. However, we may recommend that you sell any security if we believe that it is not suitable for the current recommended investment strategy. You are responsible for any taxable events in these instances. Your account can be managed in a tax efficient manner; however, we do not provide tax advice or tax management services.

Certain assumptions may be made with respect to interest and inflation rates and the use of past trends and performance of the market and economy. Past performance is not an indication of future performance.

In order to implement our recommendations, we will help you open a custodial account(s). The identity of your custodian will be communicated to you before the account is opened. We will select the securities bought and sold and the amount to be bought and sold, within the parameters of the objectives and risk tolerance of your account. The custodian will effect transactions, deliver securities and make payments. You are notified of any purchases or sales through trade confirmations and monthly statements that are provided by the Custodian. You will at all times maintain full and complete ownership rights to all assets held in your account, including the right to withdraw securities or cash, proxy voting and receiving transaction confirmations.

You will receive, at least quarterly, a statement containing a description of all the activity in your account from the custodian. This statement lists the total value at the start of the month, itemizes all transaction activity during the month, and lists the types, amounts, and total value of securities held as of the end of the month. Your statement may be in either printed or electronic form based upon your preferences.

We may also provide you with a quarterly performance statement. These statements give you additional feedback regarding performance, educate you about our long-term investment philosophy, and describe any changes in current strategy and allocation along with the reasons for making these changes.

We are available during normal business hours either by telephone, fax, email, or in person by appointment to answer your questions.

### ***Advisor Directed***

The Advisor Directed Program is managed by Kurt Baughman. This is a program that allows us to create an investment model portfolio and manage it within your investment guidelines and financial parameters. This Program enables you to pursue your investment objectives with us as manager all in one consolidated portfolio.

In the Advisor Directed Program, we use the GPS platform of portfolios and money managers provided through First Allied Securities, Inc. and First Allied Advisory Services to assist us in developing appropriate asset allocations for you. These two sponsors, First Allied Securities, Inc. ("First Allied") and



First Allied Advisory Services, Inc. ("FAAS") are affiliated registered investment advisers. Envestnet Asset Management, Inc. ("Envestnet") provides the trading platform for all GPS accounts. Envestnet is an unaffiliated registered investment adviser. This platform provides us with an extensive range of investment advisory services. We will determine which services and programs to utilize with you and may utilize the services of other third-party services providers in conjunction with our services.

We will work together to compile pertinent financial and demographic information to develop an investment program designed to meet your goals and objectives. Utilizing the GPS platform tools, we will allocate your assets among the different options and determine the suitability of the asset allocation and investment options for you, based on your needs and objectives, investment time horizon, risk tolerance and any other pertinent factors.

You will grant us discretionary trading authorization as your discretionary investment manager with respect to the Assets in your accounts. This account may have a wrap feature which is described in our ADV Part 2A Appendix Brochure.

### ***Third Party Asset Managers***

We may determine that opening an account with a professional third party asset manager provider is in your best interests. We will help you determine which asset management programs and managers most appropriately fit your needs.

These programs allow you to obtain portfolio management services that typically require higher minimum account sizes outside of the program. The money managers selected under these programs will have discretion to determine the securities they buy and sell within the account, subject to reasonable restrictions imposed by you. We will not manage, or obtain discretionary authority over the assets in the accounts participating in these programs.

Due to the nature of these programs, each of the independent money managers is obligated to provide you with a separate disclosure document. You should carefully review this document for important and specific program details, including pricing.

Under these programs, we may:

- Assist in the identification of investment objectives
- Recommend specific investment style and asset allocation strategies
- Assist in the selection of appropriate money managers and review performance and progress
- Recommend reallocation among managers or styles within the program
- Recommend the hiring and firing of money managers utilized by you

## **2. Other Services**

Our advisors may recommend and sell life, annuity, disability, health, and long-term care insurance. We will receive the usual and customary commissions associated with these sales from the insurance company. Your advisory fee will not be reduced by any payments we receive from these sales.

We can provide research and advice concerning any legal and legitimate investment for which public information is readily available.

## **Item 5 - Fees and Compensation**

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We provide asset management and financial planning services for a fee. Our Advisory Agreement or Financial Planning Agreement defines what fees are charged, their frequency and the services you are entitled to receive. The fees we receive for financial planning services do not include any of the costs to implement the plan.

The fees we receive for asset management services do not include certain charges associated with securities transactions in Clients' accounts, including: dealer markups, markdowns or spreads charged on transactions in over-the-counter securities, costs relating to trading in certain foreign securities; the internal charges and fees that may be imposed by any Funds, (such as fund operating expenses, management fees, redemption fees, 12b-1 fees and other fees and expenses. Further information regarding charges and fees assessed by Funds may be found in the appropriate prospectus or offering document) or other regulatory fees; brokerage commissions or other charges imposed by broker-dealers or entities other than the custodian if and when trades are cleared by another broker-dealer, the charge to carry tax lot information on transferred mutual funds or other investment vehicles, postage and handling charges, returned check charges, transfer taxes; stock exchange fees or other fees mandated by law, and any brokerage commissions or other charges, including contingent deferred sales charges ("CDSC"), imposed upon the liquidation of "in-kind assets" that are transferred into the account. With respect to this latter type of charge, we may liquidate such assets transferred into an account. You should be aware that if you transfer in-kind assets into your account, we may liquidate the assets immediately or at a future point in time and you may incur a brokerage commission or other charge, including a CDSC. You also may be subject to taxes. .

In addition to the redemption fees described above, you may incur redemption fees, when the portfolio manager to an investment strategy determines that it is in your overall interest, in conjunction with the stated goals of the investment strategy, to divest from certain Funds prior to the expiration of the minimum holding period of the Funds. Some mutual funds also assess redemption fees to investors upon the short term sale of its funds. Depending on the particular mutual fund, this may include sales for rebalancing purposes. Please consult the prospectus for the specific mutual fund for detailed information regarding such fees.

The Advisory Fee does not cover certain custodial fees that may be charged to you by the Custodian. You may be charged for specific account services, such as ACAT transfers, electronic fund and wire transfer charges, and for other optional services. Accounts may be subject to transaction based ticket charges assessed by the custodian for the purchase of certain mutual funds. Similarly, the fee does not cover certain non-brokerage-related fees such as individual retirement account ("IRA") trustee or custodian fees and tax-qualified retirement plan account fees and annual and termination fees for retirement accounts (such as IRAs).

You should review all fees charged to fully understand the total amount of fees you will pay.

You could invest in a mutual fund directly, without our services. However, you would not receive the services provided by us which are designed, among other things, to assist you in determining which mutual fund or funds are most appropriate to your financial condition and objectives.

You may terminate the initial agreement at any time by providing written notice to us within five (5) business days of signing the agreement. You will incur charges for advisory or consulting services rendered up to the point of termination and such fees will be due and payable by you within five business days of being billed. Refunds will be given on a pro-rata basis within five business days of cancellation. Once an account is established, either party may terminate the relationship with a 30 day written notice. Upon termination of any account, any prepaid fees that are in excess of the management services performed, will be promptly refunded to you. Accounts opened during a calendar quarter will be charged a prorated fee.

## **1. Financial Planning/Consulting Fees**

You may want us to create a financial plan and/or provide financial consulting to help you meet your long-term goals and objectives. We will work with you to develop a plan that will serve as your roadmap to the future. We will write a letter of engagement which outlines the planning services to be provided to you; the complexity of your plan will dictate the amount of time necessary to complete the planning process.

The usual fee for us to create your plan is between \$3000 and \$10,000. We charge \$300 per hour and an initial deposit of \$1,500 is due from you on the effective date of your Financial Planning agreement. We will bill you in stages, as the work progresses. The Financial Planning Agreement will show the fee you will pay and the frequency of payments. Fees are negotiable. The Financial Planning Agreement will terminate once you receive the final plan.

Based upon your needs, we may also provide consultations throughout the year to advise and counsel you about other financial issues. We can help you with transition planning, major transaction analysis coordinated with cash flow needs, retirement needs, estate planning needs, income tax planning, life and disability insurance needs, investment needs, and college education planning. We charge \$300 per hour for these services.

If the plan is implemented through us, our advisors may receive compensation from the sale of insurance or alternative investment products or services recommended in the financial plan. This compensation would be in addition to the financial planning fee you pay. The fees and expenses you pay for the purchase of these products may be more or less than the expenses you would pay should you decide to implement our recommendations through another investment advisory firm or broker-dealer and are typically determined by the broker-dealer or investment company sponsoring the product.

## 2. Asset Management Fee Schedule

Our minimum account opening balance is \$500,000; however, fees and account sizes may be negotiable depending upon a number of factors including, but not limited to the amount of assets under management as well as the number and frequency of supplemental advisor and client related services. The fee charged is based upon your invested assets. You will pay fees quarterly, in advance. Payments are due within the first five days of the respective quarterly period and will be assessed on the first day of each quarter, based upon the balance of the account under management at the beginning of the following quarter as calculated by the custodian. We assess an annual fee between 1% and 1.5%, which will be stipulated in Exhibit "A" of your investment advisory agreement with us. You will be billed one quarter of this amount on a quarterly basis. No increase in the annual fee shall be effective without prior written notification to you. Accounts opened mid-quarter will be assessed at a pro-rated management fee based upon the number of calendar days in the calendar quarter that your agreement goes into effect. Management fees are prorated for each contribution and withdrawal made during the applicable calendar quarter (with the exception of small inconsequential contributions and withdrawals). The cost of investment advisory services may be more or less than the cost of purchasing similar services separately. Among the factors impacting the relative cost of the program to a particular Client include the size of the account; the type of account (i.e., equity or fixed income); the size of the assets devoted to a particular strategy; and the managers selected. However, we believe our advisory fee is reasonable considering the fees charged by other investment advisers offering similar services/programs but fees for comparable services from other advisers may be higher or lower than the fees we charge.

Certain strategies offered by us involve investment in mutual funds. Load and no load mutual funds may pay annual distribution charges, sometimes referred to as "12(b) (1) fees". These 12(b) (1) fees come from fund assets, and thus indirectly clients' assets. We do receive compensation from these fees from our broker-dealer, First Allied Securities, Inc. The 12(b) (1) fee, deferred sales charges and other fee arrangements will be disclosed upon your request and are typically described in the applicable fund's prospectus.

For non-wrap accounts, the advisory fee also does not include any wire transfer fees, fees or commissions for securities transactions (including without limitation dealer mark-ups or mark-downs) through any broker-dealer, costs associated with temporary investment of Client funds in a money market account or special requests by Client. In addition to the Fee, the Custodian may charge additional miscellaneous fees (e.g., ACAT fees, IRA maintenance fees).

Your account at the custodian may also be charged for certain additional assets managed for you by us but not held by the Custodian (i.e. variable annuities, mutual funds, 401(k) s).

The fees we charge can be deducted directly from your account at the custodian. We will instruct the Custodian to deduct the fees from your account at the beginning of the calendar quarter. This fee will show up as a deduction on your following month's account statement from the Custodian.

### **Third Party Asset Management Providers**

The total fee you pay includes the fee negotiated with us and the Third Party Programs. You will receive the Third Party Managers ADV Part 2A at the onset of the relationships which details all fees in more depth.

### **3. Other Fees**

Our advisors may recommend and sell life, annuity, disability, health, and long-term care insurance. We will receive the usual and customary commissions associated with these sales from the insurance company. Your advisory fee is in addition to any commissions we may receive from these sales.

We can provide research and advice concerning any legal and legitimate investment for which public information is readily available. We will charge an hourly fee of \$300 or fixed project cost. We can also provide an-in depth analysis of your financial situation or other defined projects as requested on a fee only basis.

## **Item 6 - Performance Based Fee and Side by Side Management**

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We do not charge any performance-based fees. These are fees based on a share of capital gains on or capital appreciation of the assets of a client.

## **Item 7 - Types of Client(s)**

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We provide investment management services primarily to high net worth individuals and their families, trusts, estates and foundations; we may also provide services to corporate pension and profit-sharing plans, charitable organizations, endowments, corporations, and small businesses.

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

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We use a variety of analysis methods to provide you with portfolio and investment management services.

### **1. Fundamental Analysis**

We may use the fundamental method of investment analysis for the selection of mutual funds and ETFs. This process filters the potential number of mutual fund managers for their respective investment style.

Fundamental analysis serves to answer questions, such as:

- What is the size of the fund?
- Is the money manager or management team consistent in their investment style?
- Is the manager's performance consistent when compared to his peers?
- What is that manager's tenure with the fund?
- Are the internal costs competitive relative to other manager's in that style?

One of the primary objectives of fundamental analysis is to provide current analysis of funds, whether for selection or de-selection. We may use a combination of qualitative and quantitative factors to try and find funds that will perform well in their investment style. We look at both investment performance (relative to the peer group and the market) and modern portfolio statistics (like beta and standard deviation) to analyze the level of risk a manager takes to achieve those returns. When we examine a fund, we may look at the fund's annual turnover, sector weightings and many other quantitative factors.

The end goal of performing fundamental analysis is to produce a short list of funds, with the aim of figuring out what sort of position to take with those funds.

We may utilize these analyses individually or in combination depending upon your investment objectives.

## **2. Modern Portfolio Theory**

We may also use Modern Portfolio Theory to help us select the funds to include in your portfolio. Modern Portfolio Theory was created by some of the world's leading academic economists. They conducted extensive research, demonstrating that asset class selection (such as small-cap vs. large-cap, value vs. growth and U.S. vs. international)-not stock selection or market timing-is the most important determinant of portfolio performance.

Modern portfolio theory tries to understand the market as a whole, rather than looking for what makes each investment opportunity unique. Investments are described statistically, in terms of their expected long-term return rate and their expected short-term volatility. The volatility is equated with "risk", measuring how much worse than average an investment's bad years are likely to be. The end goal is to identify your acceptable level of risk tolerance, and then to find a portfolio with the maximum expected return for that level of risk.

## **3. Technical Analysis**

Technical Analysis is a technique that attempts to determine a security's value by developing models and trading rules based upon price and volume transformation. Technical analysis assumes that a market's price reflects all relevant information so the analysis focuses on the history of a security's trading behavior rather than external drivers such as economic, fundamental and news events. The practice of technical analysis incorporates the importance of understanding how market participants perceive and act upon relevant information rather than focusing on the information itself. Ultimately, technical analysts develop trading models and rules by evaluating factors such as market trends, market participant behaviors, supply and demand and pricing patterns and correlations.

In order to perform technical analysis, we may use the following techniques:

- Calculate moving averages
- Stochastic oscillators, which incorporate support and resistance levels to determine momentum.
- Charting and chart patterns
- Supply and demand indicators
- Investor behavior and psychology

As with other types of analysis, the predictive nature of technical analysis can vary greatly; models and rules are often modified and updated as new patterns and behaviors develop. Past performance is not an indicator of future return.

#### **4. Cyclical Analysis**

While we do not attempt to time the market, we may use cyclical analysis in conjunction with other strategies to help determine if shifts are required in your investment strategies depending upon long and short-term trends in financial markets and the performance of the overall national and global economy.

#### **5. Investment Strategy**

The GPS platform provides us with a variety of portfolio construction methods utilizing an analytics module that allows choice of multiple programs and products to blend a solution that best meets your requirements. It also provides us with access to a large variety of investment strategies and Funds as a core tenet of our capability. While many different investment strategies and Funds can be selected, the GPS Platform provides us with the ability to utilize their technology platform to assess portfolios holistically and across multiple programs, custodians, and registrations, allowing us to make a household assessment of your needs. This analysis capability allows us to consider multiple options for investment strategies and Funds as we seek to match your needs with the features and benefits of each program.

#### **6. Our Due Diligence**

We conduct due diligence on our third party managers. This due diligence may include, but not be limited to:

- on-site visits to certain Portfolio Managers
- interviews with investment, trading and operations personnel and senior management
- analysis of client accounts

In addition, we review regulatory filings, as well as analysis and statistics written or compiled by government agencies, trade groups or professional associations.

We review the third party asset management providers analysis during our due diligence process to determine whether to include them in your portfolio. We will look at the reports and information that they provide, as well as the following, for our due diligence efforts:

- Financial newspapers and magazines (e.g. Wall Street Journal, Forbes, etc.)
- Annual reports, prospectuses, filings with the Securities and Exchange Commission
- Research materials prepared by others
- Company press releases
- Corporate rating services
- Company websites
- Inspections of corporate activities

The investment strategies we use to implement any investment advice given to you include, but are not limited to:

- Long term purchases -securities held at least a year
- Short term purchases - securities sold within a year
- Trading -securities sold within 30 days
- Short Sales
- Margin Transactions
- The purchase of options and option writing, including covered, uncovered and spread strategies

## 7. Risks

We cannot guarantee our analysis methods will yield a return. In fact, a loss of principle is always a risk. Investing in securities involves a risk of loss that you should be prepared to handle. You need to understand that investment decisions made for your account by us are subject to various market, currency, economics, political and business risks. The investment decisions we make for you will not always be profitable nor can we guarantee any level of performance.

Certain ETFs utilize leveraged equity ETFs. The use of leverage by an ETF increases the risk to the portfolio. The more a portfolio invests in leveraged instruments, the more the leverage will magnify gains or losses on those investments. Due to the complexity and structure of these portfolios, they may not perform over time in direct or inverse correlation to their underlying index.

Tactical and dynamic investment strategies involve more frequent trading than the traditional “buy-and hold” investment strategies. Such trading can increase transaction costs and create more short-term tax gains than Client may be used to seeing in other types of strategies.

For a more comprehensive description of all the risks associated with the strategies, methodology, and products please refer to the glossary under Risks.

## Item 9 - Disciplinary Information

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Registered Investment Advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. We have no information to disclose here about the firm.

Kurt Baughman has one disclosure on his securities industry record. The event consisted of a customer complaint brought by the beneficiaries of a trust who questioned the suitability of a product. The case that was settled, pre-arbitration, by Kurt’s former employer to avoid the potential cost of future litigation. Kurt denied any wrongdoing and no evidence of wrongdoing was found. We adhere to high ethical standards for all advisors and associates. We strive to do what’s in your best interests.



## Item 10 - Other Financial Industry Activities and Affiliations

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Kurt Baughman, the President and Chief Compliance Officer of Baughman Financial Group is licensed as an insurance agent and may provide you with an analysis and recommendations that can include the purchase and/or sale of fixed insurance products.

Kurt is also a registered representative offering securities through First Allied Securities, Inc. ("FASI"). He may provide advice to you regarding brokerage products. If you implement this advice through Kurt, he may receive additional compensation in the form of brokerage commissions from FASI; commissions would be received in his separate capacity as a registered representative of FASI.

Since our advisors may sell insurance and securities products through FASI or the product sponsor, they may receive compensation in the form of commissions for these sales. Therefore, a conflict of interest may exist between our interests and your interests since we may recommend particular products based upon the potential compensation rather than your needs. This potential conflict is addressed in our Code of Ethics.

We act in a fiduciary capacity. If a conflict of interest arises between us and you, we shall make every effort to resolve the conflict in your favor. Conflicts of interest may also arise in the allocation of investment opportunities among the accounts that we advise. We will seek to allocate investment opportunities according to what we believe is appropriate for each account. We strive to do what is equitable and in the best interest of all the accounts we advise.

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

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### 1. General Information

We have adopted a Code of Ethics for all supervised persons of the firm describing its high standards of business conduct, and fiduciary duty to you, our client. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts, the reporting of certain gifts and business entertainment items, and personal securities trading procedures. All of our supervised persons must acknowledge the terms of the Code of Ethics annually, or as amended. You may request a copy of the firm's Code of Ethics by contacting Kurt Baughman.

### 2. Participation or Interest in Client Transactions and Personal Trading

We may recommend securities to you that we have purchased for our own accounts. We may trade securities in our account that we have recommended to you as long as we place our orders after your orders. This policy is meant to prevent us from benefiting as a result of transactions placed on behalf of advisory accounts.

We have established the following restrictions in order to ensure our fiduciary responsibilities to you are met:

- We shall not buy or sell securities for our personal portfolio(s) where this decision is substantially derived, in whole or in part, from our role as an Investment Advisory Representative of Baughman unless the information is also available to the investing public on reasonable inquiry. In no case, shall we put our own interests ahead of yours.
- We emphasize your unrestricted right to decline to implement any advice rendered.

However, some securities trade in sufficiently broad markets to permit transactions by clients to be completed without an appreciable impact on the markets of the securities. Under certain circumstances, exceptions may be made to the policies stated above. Records of these trades, including the reasons for the exceptions, will be maintained with our records as required.

In addition, open-end mutual funds and/or investment sub-accounts which may comprise a variable insurance product are purchased or redeemed at a fixed net asset value. Therefore, purchases of mutual funds and/or variable insurance products by an advisor are not likely to have an impact on the prices of the fund in which you invest. These types of transactions are not prohibited by our policies and procedures.

Certain affiliated accounts may trade in the same securities with your accounts on an aggregated basis when consistent with our obligation of best execution. When trades are aggregated, all parties will share the costs in proportion to their investment. We will retain records of the trade order (specifying each participating account) and its allocation. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

## **2. Responsibility**

It is the responsibility of all supervisory personnel to ensure that we conduct business with the highest level of ethical standards and in keeping with our fiduciary duties to you. We must put your interests first and refrain from having outside interests that conflict with your interests.

## **3. Privacy Statement**

We are committed to safeguarding your confidential information and hold all personal information provided to us in the strictest confidence. These records include all personal information that we collect from you or receive from other firms in connection with any of the financial services provided. We do not disclose your personal information except as required by law. We maintain physical, electronic and procedural safeguards that comply with federal standards to safeguard your personal information. Our Privacy Policy is available upon request.

## **4. Prohibited Acts**

The following acts are prohibited:

- Employing any device, scheme or artifice to defraud
- Making any untrue statement of a material fact

- Omitting to state a material fact necessary in order to make a statement, in light of the circumstances under which it is made, not misleading
- Engaging in any fraudulent or deceitful act, practice or course of business
- Engaging in any manipulative practices
- Participating in client's accounts

## **5. Conflicts of Interest**

We have a duty to disclose potential and actual conflicts of interest. We have a duty to report potential and actual conflicts of interest to management. Gifts (other than de minimis gifts, which are usually defined as having a value under \$100.00) should not be accepted from persons or entities doing business with us.

We act in a fiduciary capacity. If a conflict of interest arises between us and you, we shall make every effort to resolve the conflict in your favor. Conflicts of interest may also arise in the allocation of investment opportunities among the accounts that we advise. We will seek to allocate investment opportunities according to what we believe is appropriate for each account. We strive to do what is equitable and in the best interest of all the accounts we advise.

All material conflicts of interest under CCR Section 260.238 (k) are disclosed regarding the investment adviser, its representatives or any of its employees, which could be reasonably expected to impair the rendering of unbiased and objective advice.

## **6. Business Continuation Plan**

We have developed a Business Continuity Plan to address how we will respond to events that may disrupt business. Since the timing and impact of disasters is unpredictable, the firm will have to be flexible in responding to the events as they occur.

Our plan is designed to permit us to resume operations as quickly as possible, given the scope and severity of the disruption. The Plan covers data backup and recovery, mission critical systems financial and operational assessments, alternative communications, alternate business locations, bank and counter-party impact, regulatory reporting and the assurance of prompt access to funds and securities for our customers.

## **Item 12 - Brokerage Practices**

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### **1. Soft Dollars**

We may receive access to product research, services, technology and other educational information to help them operate efficiently, grow their business and deliver exceptional service to clients. FASI may provide some or all of these services. No client is charged for these services and the information received may be used to benefit all our clients, not just the ones custodied or traded at that particular institution. Their brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

These firms generally do not charge separately for custody but are compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through or settle into accounts.

They also make available to us other services intended to help us manage and further develop our business enterprise. These services may include: (i) compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. They may discount or waive fees they would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to us. They may also provide other benefits such as educational events or occasional business entertainment of our personnel.

FASI may provide us products and services to assist with administering our business needs. The GPS Platform provides a customizable asset management software program through a web-enabled platform. This offers us the ability to create our own investment model portfolios. FASI provides back-office functions including daily account reconciliation and asset transfers.

In evaluating whether to recommend or require that clients use their services, we may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors we consider and not solely on the nature, cost or quality of custody and brokerage services provided by them, which may create a potential conflict of interest.

As a fiduciary, we endeavor to act in our clients' best interests and our requirement that clients maintain their assets in accounts at FASI or another custodian may be based in part on the benefit to us 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 custodian, which may create a potential conflict of interest. However, we evaluate the services offered in conjunction with the benefits receive to make certain the prices you pay are reasonable given every service offered.

#### **a. Research**

It is not our practice to negotiate "execution only" commission rates; therefore you may be paying for other services provided by the broker-dealer which are included in the commission rate. These other services may include research, services such as market publications, advice, analysis, reports or on line financial information. Research services furnished by us to our brokerage clients may or may not be used by us in servicing our investment advisory clients.

## **2. Brokerage for Client Referrals**

We do not receive any compensation or incentive for referring you to broker-dealers for brokerage trades.

## **3. Best Execution**

By directing brokerage, Clients may not receive the benefit of the lowest trade price then available for any particular transaction or Client account trade orders may not be able to be aggregated to reduce transactional costs.

In placing orders for purchase and sale of securities and directing brokerage to effect these transactions, the primary objective is to obtain prompt execution of orders at the most favorable prices reasonably obtainable. In doing so, we consider a number of factors, including, without limitation, the overall direct net economic result to you, the financial strength, reputation and stability of the broker, the efficiency with which the transaction is effected, the ability to effect the transaction at all, the availability of the broker to stand ready to execute possibly difficult transactions in the future and other matters involved in the receipt of brokerage services.

#### **4. Directed Brokerage**

If requested, we will arrange for the execution of securities brokerage transactions for your account through First Allied Securities, Inc. ("FASI"); who we reasonably believe will provide "best execution." FASI receives percentages of 12B-1 fees and asset management fees in exchange for these services.

Not all advisory firms require you to direct brokerage to a specific broker-dealer. By directing brokerage to FASI you may pay higher fees or transaction costs than those obtainable by other broker-dealers. In most cases, we believe you are paying a discounted and reasonable rate. We believe that FASI pays industry standard commissions on transactions they handle for us. These commissions are reasonable and customary.

If requested, we may consider directing brokerage to a broker-dealer you have specified. You may pay higher or lower fees if you select another broker-dealer. Generally, we will not negotiate lower rates below the rates established by the executing broker-dealer for this type of directed brokerage account, unless we believe that such rate is unfair or unreasonable for the size and type of transaction. We may not be able to provide best execution under these circumstances.

#### **5. Trade Allocations**

We will generally place your trades individually through your accounts unless we decide to purchase or sell the same securities for several clients at approximately the same time. We may, but are not obligated to, combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among our clients differences in prices and commission or other transaction costs. Under this procedure, transactions will be price-averaged and allocated among our clients in proportion to the purchase and sale orders placed for each client account on any given day.

##### **a. Trade Errors**

Although we take reasonable steps to avoid errors, occasionally errors do occur. We seek to identify errors and to correct the error affecting any Client account as quickly as possible, in order to put the Client in the position they would have been in had the error not occurred. All losses to a Client resulting from an error will be reimbursed to the Client's account immediately after corrections are made, while any market gains that result from the correction of such error will inure to the benefit of the Client unless the error is identified prior to settlement and is moved to the error account.

## Item 13 - Review of Accounts

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### 1. Duty to Supervise

We are responsible for ensuring adequate supervision over the activities of all persons who act on our behalf. Specific duties include:

- Establish procedures that could be reasonably expected to prevent and detect violations of law by our Advisory personnel
- Analyze operations and create a system of controls to ensure compliance with applicable securities laws
- Ensure that all Advisory personnel fully understand the Company's policies and procedures
- Establish a review system designed to provide reasonable assurance that our policies and procedures are effective and being followed

### 2. Reviews

Your advisor will review all accounts on a quarterly basis, and compare each investment on a transactional basis to insure that each transaction:

- Is suitable to your respective investment objectives
- Meets your quality standards
- Is designed to make sure that your investment objectives are still pertinent to the managed account arrangement.

More frequent reviews may be triggered by material changes in your individual circumstances or the market economic or political environment.

### 3. Reports

You will be provided with account statements from the custodian reflecting the transactions occurring in the account on at least a quarterly basis. These statements will be written or electronic depending upon what you selected when you opened the account. You will be provided with confirmations for each securities transaction executed in the account.

In addition you will receive quarterly performance reports from us. Please verify the accuracy of these statements and notify us of any discrepancies in the account or any concerns you may have about the account.

## Item 14 - Client Referrals and Other Compensation

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We may enter into written agreements to pay referral fees to other persons who are unaffiliated individuals. Prior to entering into any investment advisory agreement with you through these Solicitation Agreements, we will determine if the referral has provided you with a written disclosure document stating that the unaffiliated person is being compensated for referring us and the terms of

the compensation arrangement. The written disclosure document that you receive will indicate the fixed percentage of fees that the unaffiliated person will receive so long as you remain our client. The fees paid to the unaffiliated person are included in the investment advisory fee you pay to us and are not paid separately. Investment advisory fees paid by referred clients are the same as fees paid by clients for whom we pay no compensation to any unaffiliated person.

## **Item 15 - Custody**

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We do not have custody of any accounts. However, we may be deemed to have custody of your accounts if we have the ability to deduct your quarterly fees from the custodian.

We do not debit your fees directly from your advisory account. We instruct the custodian to debit the fee from your account and to forward the fee to us. We do not have any other access to your funds other than trading and debiting our fees.

You should receive at least quarterly statements from the custodian that holds and maintains your investment assets. These statements list the total value of the account at the start and end of the timeframe and itemize all transactions and security positions. For taxable accounts, the Custodian will provide you consolidated year-end summary statements including IRS forms 1099 and other tax-related forms, as applicable. We urge you to carefully review such statements and compare this official custodial record to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. If you notice any discrepancies, please contact Kurt Baughman.

We are not allowed to make alterations or amendments to the custodian's statement. This preserves the integrity of the Custodian's statement and provides you with an independent appraisal of the account.

## **Item 16 - Investment Discretion**

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We usually receive discretionary authority from you at the beginning of an advisory relationship when you sign our Advisory Agreement. This gives us permission to select the security and amount of securities to be bought or sold. In all cases, however, this discretion is exercised in a manner consistent with the stated investment objectives for your account.

When selecting securities and determining amounts, we observe the investment policies, limitations and restrictions you have set. Any investment guidelines and restrictions you wish to place on your account must be provided to us in writing.

For registered investment companies, our authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

## **Item 17 - Voting Client Securities**

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As a matter of firm policy and practice, we do not have any authority to and do not vote proxies on behalf of advisory clients. You retain the responsibility for receiving and voting proxies for any and all securities maintained in your portfolios. We may provide advice to you regarding your voting of proxies. We are authorized to instruct the Custodian to forward you copies of all proxies and shareholder communications relating to your account assets.

## **Item 18 - Financial Information**

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We are required to provide you with certain financial information or disclosures about our financial condition. We have no financial commitment that would impair our ability to meet any contractual and fiduciary commitments to you, our client. We have not been the subject of any bankruptcy proceedings.

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

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There is one shareholder of Baughman Wealth Advisors, Inc., Kurt Baughman. His information is shown in the Brochure Supplement below:



**Baughman Wealth Advisors, Inc.  
DBA Baughman Financial Group**

**2226 Westlake Drive #6**

**Austin, TX 78746**

**(408) 354.4840**

**3/1/2012**

This brochure supplement provides information about J. Kurt Baughman that supplements the Baughman Wealth Advisors, Inc. brochure. You should have received a copy of that brochure. Please contact Kurt Baughman at (408) 354.4840 if you did not receive the Baughman Wealth Advisor, Inc. brochure or if you have any questions about the contents of this supplement.

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

## Item 2 - Educational Background and Business Experience

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J. Kurt Baughman (“Kurt Baughman”, “Kurt”) is a financial service professional with twenty years of experience. His past experience includes working with some of the country’s largest brokerage firms as a Vice President and Financial Consultant. Kurt has a Texas and California insurance license. His Texas Insurance License number is 1548876 and his California Insurance License number is 0B21482. Kurt was born in 1964.

### Education

Bachelor of Science in Business Administration, 1991  
California Lutheran University, Thousand Oaks, CA

Certified Financial Planner Program  
The American College, Pennsylvania

### Designations

Certified Wealth Strategist® (CWS)  
Cannon Financial Institute, Athens, GA

### Minimum Designation Requirements

#### Certified Wealth Strategist® (CWS)

**Issuing Organization:** Cannon Financial Institute

**Prerequisites/Experience Required:** 3+ years of in the financial services industry and significant experience in client-facing roles or a four year degree from an accredited school.

**Educational Requirements:** 32 week program including two 2-day instructor led seminars and 27 weeks of directed study

**Examination Type:** A Capstone Project that includes business plans and case studies

**Continuing Education/Experience Requirements:** 33 hours every 2 years

### Business History

November 1999 – Present	President and Principal Baughman Financial Group
December 2008 – Present	Registered Representative First Allied Securities
October 2008 – Present	President and CCO of Baughman Wealth Advisors, Inc.
January 2003 – December 2008	Registered Representative at First Montauk Securities Corp
February 2001 – January 2003	Registered Representative at Fiserv Investor Services, Inc.
November 1999 – February 2001	Registered Representative at Capbay Financial Securities, Inc.
April 1996 – November 1999	Vice President of Investments at First Union Securities, Inc.
May 1992 – April 1996	Financial Consultant at Smith Barney

### **Item 3 - Disciplinary Information**

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Kurt Baughman has one disclosure on his securities industry record. The event consisted of a customer complaint brought by the beneficiaries of a trust who questioned the suitability of a product. The case was settled by Kurt's former employer pre-arbitration to avoid the potential cost of future litigation. Kurt denied any wrongdoing and no evidence of wrongdoing was found.

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

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Kurt is a registered representative offering securities through First Allied Securities, Inc. ("FASI") and is licensed to sell life insurance products. The amount of time spent on these activities generally comprises less than ten (10%) percent of Kurt's time.

### **Item 5 - Additional Compensation**

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There is no additional compensation awarded Kurt for providing advisory services, such as sales awards or prizes. He may receive additional compensation for sales of insurance products.

#### **Performance Fees**

We do not charge a performance-based fee (fees based on a share of capital gains on, or capital appreciation of, the assets of a client) for our normal asset management accounts.

#### **Other Relationships**

Neither the firm nor Kurt Baughman has any relationship with any issuer of securities.

### **Item 6 - Supervision**

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In the course of his supervisory duties as Chief Compliance Officer, Kurt will periodically review advisory accounts, correspondence, financial plans, and advisory activities. Please contact Kurt at (408) 354-4840 with questions regarding supervision.

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

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Kurt Baughman has no reportable events to disclose here.

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# Glossary of Key Terms

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**Adviser** – Baughman Wealth Advisors Inc. DBA Baughman Financial Group.

**advisor** – Your individual representative at Baughman Financial Group.

**Asset Allocation** – The process of dividing investments among different kinds of assets, such as stocks, bonds, real estate and cash, to optimize the risk/reward tradeoff based on an individual's or institutions specific situation and goals; a key concept in financial planning and money management.

**Asset-class investment portfolios** – An asset class is a grouping of similar investments whose prices tend to move together. Asset classes can be defined on a very general level, such as stocks or on a more specific level, such as American silver producing companies. The concept of asset classes is important because one of the goals when building an investment portfolio is to use different asset classes which are not correlated with each other.

## Designations

**Certified Wealth Strategist® (CWS)** designation prepares practitioners and organizational leaders to better serve the high net worth market - particularly those seeking to move away from a transaction-based business to a consultative, comprehensive practice management and client service model.

**Diversification** – a portfolio strategy designed to reduce exposure to risk by combining a variety of investments, such as stocks, bonds, and real estate, which are unlikely to all move in the same direction. The goal of diversification is to reduce the risk in a portfolio. Volatility is limited by the fact that not all asset classes or industries or individual companies move up and down in value at the same time or at the same rate. Diversification reduces both the upside and downside potential and allows for more consistent performance under a wide range of economic conditions.

**Exchange-Traded Funds** — A type of an investment company (either an open-end company or UIT) whose objective is to achieve the same return as a particular market index. ETFs differ from traditional open-end companies and UITs, because, pursuant to SEC exemptive orders, shares issued by ETFs trade on a secondary market and are only redeemable from the fund itself in very large blocks (blocks of 50,000 shares for example).

**Expense Ratio** — the fund's total annual operating expenses (including management fees, distribution (12b-1) fees, and other expenses) expressed as a percentage of average net assets.

**Fees**— a list of all fees associated with different products we offer are listed below:

1. 12b-1 Fees — Fees paid by the fund out of fund assets to cover the costs of marketing and selling fund shares and sometimes to cover the costs of providing shareholder services. "Distribution fees" include fees to compensate brokers and others who sell fund shares and to pay for advertising, the printing and mailing of prospectuses to new investors, and the printing

and mailing of sales literature. "Shareholder Service Fees" are fees paid to persons to respond to investor inquiries and provide investors with information about their investments.

2. **Account Fee**— A fee that some funds separately impose on investors for the maintenance of their accounts. For example, accounts below a specified dollar amount may have to pay an account fee.
3. **Distribution Fees** — Fees paid out of fund assets to cover expenses for marketing and selling fund shares, including advertising costs, compensation for brokers and others who sell fund shares, and payments for printing and mailing prospectuses to new investors and sales literature prospective investors. Sometimes referred to as "12b-1 fees."
4. **Management Fee** — fee paid out of fund assets to the fund's investment adviser or its affiliates for managing the fund's portfolio, any other management fee payable to the fund's investment adviser or its affiliates, and any administrative fee payable to the investment adviser that are not included in the "Other Expenses" category. A fund's management fee appears as a category under "Annual Fund Operating Expenses" in the Fee Table.
5. **Operating Expenses** — the costs a fund incurs in connection with running the fund, including management fees, distribution (12b-1) fees, and other expenses.
6. **Purchase Fee** — a shareholder fee that some funds charge when investors purchase mutual fund shares. Not the same as (and may be in addition to) a front-end load.
7. **Redemption Fee** — a shareholder fee that some funds charge when investors redeem (or sell) mutual fund shares. Redemption fees (which must be paid to the fund) are not the same as (and may be in addition to) a back-end load (which is typically paid to a broker). The SEC generally limits redemption fees to 2%.
8. **Sales Charge (or "Load")** — the amount that investors pay when they purchase (front-end load) or redeem (back-end load) shares in a mutual fund, similar to a commission. The SEC's rules do not limit the size of sales load a fund may charge, but FINRA rules state that mutual fund sales loads cannot exceed 8.5% and must be even lower depending on other fees and charges assessed.
9. **Shareholder Service Fees** — fees paid to persons to respond to investor inquiries and provide investors with information about their investments. See also "12b-1 fees."

**Index Fund** — describes a type of mutual fund or Unit Investment Trust (UIT) whose investment objective typically is to achieve the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, the Russell 2000 Index, or the Wilshire 5000 Total Market Index.

**Investment Adviser** — generally, a person or entity who receives compensation for giving individually tailored advice to a specific person on investing in stocks, bonds, or mutual funds. Some investment advisers also manage portfolios of securities, including mutual funds.

**Investment Company** — a company (corporation, business trust, partnership, or limited liability company) that issues securities and is primarily engaged in the business of investing in securities. The three basic types of investment companies are mutual funds, closed-end funds, and unit investment trusts.

**Investment Goals** – objective or target, usually driven by specific future financial needs. Some common goals for an individual are: saving for a comfortable retirement, saving to send children to college, managing finances to enable a home purchase, minimizing taxes, and maximizing return on investments given a certain risk tolerance, and estate or trust planning.

**Investment Objectives** – The financial goal or goals of an investor. An investor may wish to maximize current income, maximize capital gains, or set a middle course of current income with some appreciation of capital. Defining investment objectives helps to determine the investments an individual should select.

**Margin** — borrowing money (usually using securities you already own as collateral) that is used to purchase securities.

**Mutual Fund** — the common name for an open-end investment company. Like other types of investment companies, mutual funds pool money from many investors and invest the money in stocks, bonds, short-term money-market instruments, or other securities. Mutual funds issue redeemable shares that investors purchase directly from the fund (or through a broker for the fund) instead of purchasing from investors on a secondary market.

**NAV (Net Asset Value)** — the value of the fund's assets minus its liabilities. SEC rules require funds to calculate the NAV at least once daily. To calculate the NAV per share, simply subtract the fund's liabilities from its assets and then divide the result by the number of shares outstanding.

**No-load Fund** — a fund that does not charge any type of sales load. But not every type of shareholder fee is a "sales load," and a no-load fund may charge fees that are not sales loads. No-load funds also charge operating expenses.

**Open-End Company** — the legal name for a mutual fund. An open-end company is a type of Investment Company.

**Option Contracts**—the right, but not the obligation, to buy (for a call option) or sell (for a put option) a specific amount of a given stock, commodity, currency, index, or debt, at a specified price (the strike price) during a specified period of time. For stock options, the amount is usually 100 shares. Each option contract has a buyer, called the holder, and a seller, known as the writer. If the option contract is exercised, the writer is responsible for fulfilling the terms of the contract by delivering the shares to the appropriate party. In the case of a security that cannot be delivered such as an index, the contract is settled in cash. For the holder, the potential loss is limited to the price paid to acquire the option. When an option is not exercised, it expires. No shares change hands and the money spent to purchase the option is lost. For the buyer, the upside is unlimited. Option contracts, like stocks, are therefore said to have an asymmetrical payoff pattern. For the writer, the potential loss is unlimited unless the contract is covered, meaning that the writer already owns the security underlying the option. Option contracts are most frequently as either leverage or protection. As leverage, options allow the holder to control equity in a limited capacity for a fraction of what the shares would cost. The difference can be invested elsewhere until the option is exercised. As protection, options can guard against price fluctuations in the

near term because they provide the right to acquire the underlying stock at a fixed price for a limited time. Risk is limited to the option premium (except when writing options for a security that is not already owned). However, the costs of trading options (including both commissions and the bid/ask spread) is higher on a percentage basis than trading the underlying stock. In addition, options are very complex and require a great deal of observation and maintenance

**Portfolio** — an individual's or entity's combined holdings of stocks, bonds, or other securities and assets.

**Profile** — summarizes key information about a mutual fund's costs, investment objectives, risks, and performance. Although every mutual fund has a prospectus, not every mutual fund has a profile.

**Prospectus** — describes the mutual fund to prospective investors. Every mutual fund has a prospectus. The prospectus contains information about the mutual fund's costs, investment objectives, risks, and performance. You can get a prospectus from the mutual fund company (through its website or by phone or mail). Your financial professional or broker can also provide you with a copy.

**Risks** — a list of all risks associated with the strategies, products and methodology we offer are listed below:

#### 1. Fundamental Analysis Risk

Fundamental analysis, when used in isolation, has a number of risks:

- There are an infinite number of factors that can affect the earnings of a company, and its stock price, over time. These can include economic, political and social factors, in addition to the various company statistics.
- When using this method with mutual funds, the funds are composed of many companies and not all of them will be undervalued
- The data used may be at least six months out of date.
- It is difficult to give appropriate weightings to the factors.
- In the early 1970s and 1980s price/earnings multiples of 80 or 90 were considered acceptable by some for 'blue chip' stocks in the United States.
- In the 1980s in the United States some biotechnology stocks sold at '50 times sales'. The companies had no earnings and paid no dividend. The new yardstick to value these became 'products in the pipeline'. By the late 1980s most had lost three-quarters of their stock price.
- It assumes that the analyst is competent.
- A fundamental analyst assumes that other fundamental analysts will form the same view about the company and buy the stock, thus restoring its value and returning the trader or investor a capital gain. In practice, an undervalued company's stock price can stay at approximately the same level (or decline) for years.
- It ignores the influence of random events such as oil spills, product defects being exposed, and acts of God and so on.
- It assumes that there is no monopolistic power over markets.
- Even when fundamental analysis reveals an undervalued company, or a stock with high growth prospects, it does not tell us anything about the timing of the purchase of the stock.

In other words, we may have discovered a grossly undervalued stock whose price has been falling for some time, and may well continue falling.

## 2. Mutual Funds Risk

Mutual funds can offer the advantages of diversification and professional management. But, as with other investment choices, investing in mutual funds involves risk and fees and taxes will diminish a fund's returns.

But mutual funds also have features that some clients might view as disadvantages, such as:

- **Costs despite Negative Returns** — Clients must pay sales charges, annual fees, and other expenses) regardless of how the fund performs. And, depending on the timing of their investment, clients may also have to pay taxes on any capital gains distribution they receive — even if the fund went on to perform poorly after they bought shares.
- **Lack of Control** — Investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.
- **Price Uncertainty** — with an individual stock, you can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling your advisor. You can also monitor how a stock's price changes from hour to hour. But with a mutual fund, the price you purchase or redeem shares for will typically depend on the fund's NAV, which the fund might not calculate until many hours after you've placed your order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

The following is a list of some general risks associated with investing in mutual funds.

- **Country Risk** - The possibility that political events (a war, national elections), financial problems (rising inflation, government default), or natural disasters (an earthquake, a poor harvest) will weaken a country's economy and cause investments in that country to decline.
- **Currency Risk** -The possibility that returns could be reduced for Americans investing in foreign securities because of a rise in the value of the U.S. dollar against foreign currencies. Also called exchange-rate risk.
- **Income Risk** - The possibility that a fixed-income fund's dividends will decline as a result of falling overall interest rates.
- **Industry Risk** - The possibility that a group of stocks in a single industry will decline in price due to developments in that industry.
- **Inflation Risk** - The possibility that increases in the cost of living will reduce or eliminate a fund's real inflation-adjusted returns.
- **Manager Risk** -The possibility that an actively managed mutual fund's investment adviser will fail to execute the fund's investment strategy effectively resulting in the failure of stated objectives.



- Market Risk -The possibility that stock fund or bond fund prices overall will decline over short or even extended periods. Stock and bond markets tend to move in cycles, with periods when prices rise and other periods when prices fall.
- Principal Risk -The possibility that an investment will go down in value, or "lose money," from the original or invested amount.

### 3. Bond Fund Risk

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields of the risks associated with bond funds include:

- Call Risk - The possibility that falling interest rates will cause a bond issuer to redeem—or call—its high-yielding bond before the bond's maturity date.
- Credit Risk — the possibility that companies or other issuers whose bonds are owned by the fund may fail to pay their debts (including the debt owed to holders of their bonds). Credit risk is less of a factor for bond funds that invest in insured bonds or U.S. Treasury bonds. By contrast, those that invest in the bonds of companies with poor credit ratings generally will be subject to higher risk.
- Interest Rate Risk — the risk that the market value of the bonds will go down when interest rates go up. Because of this, you can lose money in any bond fund, including those that invest only in insured bonds or Treasury bonds.
- Prepayment Risk — the chance that a bond will be paid off early. For example, if interest rates fall, a bond issuer may decide to pay off (or "retire") its debt and issue new bonds that pay a lower rate. When this happens, the fund may not be able to reinvest the proceeds in an investment with as high a return or yield.

### 4. Stock Fund Risk

Although a stock fund's value can rise and fall quickly over the short term, historically stocks have performed better over the long term than other types of investments — including corporate bonds, government bonds, and treasury securities.

Overall "market risk" poses the greatest potential danger for investors in stocks funds. Stock prices can fluctuate for a broad range of reasons, such as the overall strength of the economy or demand for particular products or services.

Not all stock funds are the same. For example:

- Growth funds focus on stocks that may not pay a regular dividend but have the potential for large capital gains.
- Income funds invest in stocks that pay regular dividends.
- Index funds aim to achieve the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, by investing in all — or perhaps a representative sample — of the companies included in an index.

- Sector funds may specialize in a particular industry segment, such as technology or consumer products stocks.

## 5. Alternative Investment Risk

Investing in alternative investments is speculative, not suitable for all clients, and intended for experienced and sophisticated investors who are willing to bear the high economic risks of the investment, which can include:

- Loss of all or a substantial portion of the investment due to leveraging, short-selling or other speculative investment practices
- Lack of liquidity in that there may be no secondary market for the fund and none expected to develop
- Volatility of returns
- Restrictions on transferring interests in the fund
- Absence of information regarding valuations and pricing
- Delays in tax reporting
- Less regulation and higher fees than mutual funds

## 6. Insurance Product Risk

The rate of return on variable insurance products is not stable, but varies with the stock, bond and money market subaccounts that you choose as investment options. There is no guarantee that you will earn any return on your investment and there is a risk that you will lose money. Before you consider purchasing a variable product, make sure you fully understand all of its terms. Carefully read the prospectus. Some of the major risks include:

- Liquidity and Early Withdrawal Risk – There may be a surrender charges for withdrawals within a specified period, which can be as long as six to eight years. Any withdrawals before a client reaches the age of 59 ½ are generally subject to a 10 percent income tax penalty in addition to any gain being taxed as ordinary income.
- Sales and Surrender Charges –Asset-based sales charges or surrender charges. These charges normally decline and eventually are eliminated the longer you hold your shares. For example, a surrender charge could start at 7 percent in the first year and decline by 1 percent per year until it reaches zero.
- Fees and Expenses – There are a variety of fees and expenses which can reach 2% and more such as:
  - Mortality and expense risk charges
  - Administrative fees
  - Underlying fund expenses
  - Charges for any special features or riders

- Bonus Credits – Some products offer bonus credits that can add a specified percentage to the amount invested ranging from 1 percent to 5 percent for each premium payment. Bonus credits, however, are usually not free. In order to fund them, insurance companies typically impose high mortality and expense charges and lengthy surrender charge periods.
- Guarantees - Insurance companies provide a number of specific guarantees. For example, they may guarantee a death benefit or an annuity payout option that can provide income for life. These guarantees are only as good as the insurance company that gives them.
- Market Risk -The possibility that stock fund or bond fund prices overall will decline over short or even extended periods. Stock and bond markets tend to move in cycles, with periods when prices rise and other periods when prices fall.
- Principal Risk -The possibility that an investment will go down in value, or "lose money," from the original or invested amount.

## 7. Overall Fund Risk

- Clients need to remember that past performance is no guarantee of future results. All funds carry some level of risk. You may lose some or all of the money you invest, including your principal, because the securities held by a fund goes up and down in value. Dividend or interest payments may also fluctuate, or stop completely, as market conditions change.
- Before you invest, be sure to read a fund's prospectus and shareholder reports to learn about its investment strategy and the potential risks. Funds with higher rates of return may take risks that are beyond your comfort level and are inconsistent with your financial goals.
- While past performance does not necessarily predict future returns, it can tell you how volatile (or stable) a fund has been over a period of time. Generally, the more volatile a fund, the higher the investment risk. If you'll need your money to meet a financial goal in the near-term, you probably can't afford the risk of investing in a fund with a volatile history because you will not have enough time to ride out any declines in the stock market.

## 8. Technical Analysis risk

- Technical analysis is derived from the study of market participant behavior and its efficacy is a matter of controversy.
- Methods vary greatly and can be highly subjective; different technical analysts can sometimes make contradictory predictions from the same data.
- Models and rules can incur sufficiently high transaction costs.
- Technical analysis has not received the same level of academic scrutiny as fundamental analysis; academic appraisals often find that it has little predictive power.

## 9. Options Risk

- An option holder runs the risk of losing the entire amount paid for the options in a relatively short period of time. Option writers run the risk of losing more than their original investment.

- The more an option is out of the money and shorter the remaining time to expiration, the greater the risk that an option holder will lose all or part of his investment in the option.
- The exercise provisions of an option may create certain risks for the option holders.
- Exercise restrictions may be imposed by the courts, SEC, other regulators, the Options Clearing Corporation or the respective options market.
- Option writers may be assigned an exercise at any time during the period an option is exercised.
- Spread option strategies are complex and the associated risks are not well understood.
- A trading market in an option may not be available.
- Options do not typically move in linear relationships to their underlying interest; sudden movements in underlying interests or volatility may cause sharp upward or downward spikes in the value of options that can trigger an option to be exercised.
- Counterparty risk.
- Options can increase leverage significantly.
- For more detailed discussions of option risk, please see the pamphlet provided to you entitled “Characteristics & Risks of Standardized Options.”

#### 10. Performance Risk

- Your individual returns will be reduced by advisory and program fees. Because fees are deducted periodically, the compounding effect will be to increase the impact of fee deductions by an amount directly related to the gross account performance. For example, on an account with an 8.6% gross annual rate of return and a 3% annual fee deducted quarterly (.75%); the compounding effect of the fees would result in a net annual rate of return of 5.5%. Actual results will vary from this example.
- The performance data you will receive represents past performance and does not guarantee future results. Actual account performance may be lower or higher than the generic performance data reported in marketing material. The investment return and principal value of an investment will fluctuate, so that your shares, when redeemed, may be worth more or less than their original cost.

**Risk Tolerance** – the extent to which an investor is willing to accept more risk in exchange for the possibility of a higher return. An investor with a high risk tolerance is likely to invest in securities, such as stocks in startup companies, and is willing to accept the possibility that the value of his/her portfolio will decline, at least in the short-term. An investor with a low risk tolerance, on the other hand, tends to invest predominantly in stable stocks and/or highly-graded bonds. One's risk tolerance is subjective and may vary according to age, needs, goals, and even personal dispositions.

**Third Party Money Manager**— the professional management of various securities (shares, bonds and other securities) and assets (e.g., real estate), to meet specified investment goals for the benefit of the

investors. The managers are not the actual advisers working with the investor. Investors may be institutions (insurance companies, pension funds, corporations, individuals etc.

**Total Annual Fund Operating Expense** — the total of a fund's annual fund operating expenses, expressed as a percentage of the fund's average net assets. You'll find the total in the fund's fee table in the prospectus.

**Unit Investment Trust (UIT)** — a type of investment company that typically makes a one-time "public offering" of only a specific, fixed number of units. A UIT will terminate and dissolve on a date established when the UIT is created (although some may terminate more than fifty years after they are created). UITs do not actively trade their investment portfolios.

**You** — the client.