



**Item 1 – Cover Page**

**ADV Part 2A Appendix 1**

**Baughman Wealth Advisors Inc.**

**DBA Baughman Financial Group**

**2226 Westlake Drive, #6**

**Austin, TX 78746**

**(408) 354-4840**

**2/10/2012**

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 2/10/2012 is a new document that has been prepared to address updates to our investment advisory practices. We now offer a Wrap fee program through the GPS platform. The GPS platform hosts a variety of advisory programs that are jointly sponsored. This wrap brochure details the programs available through the GPS platform that we offer to our clients. Envestnet Asset Management, Inc. ("Envestnet") provides the technology platform for all GPS platform accounts. Envestnet and First Allied Advisory Services, Inc. are co-sponsors of the programs described in this brochure because they select the investment advisers available for selection as portfolio managers in these programs. Both Envestnet and First Allied Advisory Services are unaffiliated registered investment advisers.

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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## Item 4 - Services, Fees and Compensation

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Baughman Wealth Advisors Inc. DBA Baughman Financial Group (“Baughman”) is a Registered Investment Adviser (“Adviser”). 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.

We offer both wrap and non-wrap programs. A wrap program is one in which you pay a single “wrapped” fee for both investment advisory and brokerage execution services. This wrap fee is not based on the number of transactions made in your account. It is based on the size of the account(s) we manage for you. If you invest in a non-wrap program, you may be subject to charges for each transaction in addition to the advisory fee. Because wrap programs do not have fees or charges associated with each transaction, wrap fees are generally higher for similar services than non-wrap fees. This brochure describes our wrap fee program only. For information on our non-wrap fee program please refer to our ADV Part 2A Brochure.

The advisory programs detailed in this brochure are managed by a third-party manager or by Kurt Baughman in the Adviser Directed program. You can find information on the third-party manager’s methods of analysis and investment strategy by reviewing its Form ADV disclosure brochure, which we will provide to you when offering either the UMA Program or the SMA Program. We will also provide you with a copy of our Form ADV Part 2B brochure supplement, which contains important information about us and the Adviser Directed program.

We use the GPS platform of money managers through a contractual agreement with First Allied Securities, Inc. (“First Allied”). Envestnet Asset Management, Inc. (“Envestnet”) provides the trading platform for all GPS accounts. First Allied and Envestnet are unaffiliated registered investment advisers.

These programs allow you to obtain portfolio management services that typically require higher minimum account sizes outside of the program. The 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. If you select a third party money manager, we will not manage, or obtain discretionary authority over the assets in the accounts participating in these programs.

Under third party manager 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

We will take into account your investment goals and needs when recommending any advisory program or service. 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 gather personal information when helping you choose a program or service. This information may include:

- Your investing experience
- How soon you need the money
- Your retirement goals
- Your current financial situation and future needs
- Your annual income
- Your ability to withstand losing money
- Your ability to withstand market fluctuation

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. Our intention is to provide you with programs and services that will help you to meet your goals and needs. Please contact us any time this information changes so that we can review your existing accounts to see if any changes need to be made.

In order to invest in the wrap fee program, we will help you open a custodial account(s). Custody of all accounts for the programs on the GPS platform will be at either Pershing or JP Morgan. Pershing and/or JP Morgan will provide you with confirmations of all transactions and monthly or quarterly account statements. You may have the option of directing Pershing and/or JP Morgan to not send you confirmations. This suppression will not impact the delivery of account statements. 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.

The programs we offer are the Adviser Directed, UMA Program and the SMA Program. The third-party managers in the UMA Program are referred to as strategists ("Strategists"); third-party managers in the SMA Program are referred to as investment managers ("Investment Managers"). All Strategists and Investment Managers are registered investment advisers.

## **Adviser Directed**

The Adviser Directed Program is managed by Kurt Baughman. This is available in a wrap fee or non-wrap fee program. This brochure discusses the wrap fee option only. This program 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 Adviser 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.

### **UMA Program**

The UMA Program allows you to select one of several different Strategists to manage your advisory account from a comprehensive, top-down perspective. We offer several Strategists to give you access to a variety of investment models including mutual fund-based models, exchange-traded fund-based models, and models with multiple types of investment vehicles, including mutual funds, exchange-traded funds, and separately managed accounts. We will initially choose one of the available investment models together. After the initial selection, we have the flexibility to select a different model for your account at our discretion without your prior consent as long as the overall risk profile for all the accounts associated with the statement of investment selection is consistent with your selected risk profile.

We will provide you with a complete listing of Strategists and investment models available in the UMA Program. For more information about each Strategist and investment model, please review the strategist's Form ADV 2A disclosure brochure, which we will provide to you.

### **SMA Program**

The SMA Program allows you to select one of several Investment Managers to manage your advisory account. These Investment Managers generally focus on a specific asset class or sector and will typically invest in individual stocks and/or bonds, but can also utilize exchange-traded funds and mutual funds. We will initially choose one of the available investment models together. After the initial selection, we have the flexibility to select a different model for your account at our discretion without your prior consent as long as the overall risk profile for all the accounts associated with the statement of investment selection is consistent with your selected risk profile.

We will provide you with a complete listing of Investment Managers available in the SMA Program. For detailed information about each investment manager, please review the manager's Form ADV Part 2A disclosure brochure, which we will provide to you.

## Fee Overview

The fees that you pay for advisory programs or services will depend on several different factors. The fees for advisory programs are generally based on the “Assets under Management.” This means that the account is charged a fee based on the account balance as of a certain date. These fees are negotiable under certain circumstances.

The advisory programs described in this brochure charge an advisory fee, paid quarterly, based on the account’s balance on the last day of each calendar quarter (March 31, June 30, September 30, and December 31). If the last day of the calendar quarter falls on a day that the New York Stock Exchange is closed, we use the account balance on the last business day of the calendar quarter to calculate the advisory fee. This fee is generally charged in advance (or pre-paid) for the management to be provided over the next calendar quarter. We will only charge you an advisory fee for the portion of a quarter that the account is under management. For new accounts, we will bill the account when it is opened for the remaining days in the quarter. For accounts that are terminating management, we will automatically credit you back any pre-paid fees for the portion of the quarter remaining after management has terminated. Advisory fees are generally deducted from the account. The account statements you receive from Pershing and/or JP Morgan will reflect the deduction of these fees. Fees are deducted from the client account in the month following quarter end.

In the event a deposit of \$5,000 or more on a single day or withdrawal of \$5,000 or more on a single day occurs, we will calculate the fee owed or refund due and adjust the normal fee charged at the end of the calendar quarter.

Some assets in your managed account may not be included in the calculation of your advisory fee. For example, assets that you recently paid a commission on may be exempt from this advisory fee. With approval from the manager, we allow you to “hold” the asset in your advisory account, but this asset would not be charged an advisory fee. If your account is billed on assets under management, the advisory fee is generally split between a program (or platform) fee and a management fee.

## Adviser Directed

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).

## UMA Program Fees

The following table details the fee schedule for the UMA Program. The program fee for the UMA Program is dependent on which Strategist and/or investment model is selected. The advisory fee that you pay for your UMA Program account will be detailed on the statement of investment selection that you will sign when opening your account. Your advisory fee will not change when we change Strategists or investment models.



Account Size	Program Fee
Up to \$250,000	0.55% - 0.75%
\$250,001 - \$500,000	0.50% - 0.70%
\$500,001 - \$1,000,000	0.45% - 0.65%
\$1,000,001 - \$2,000,000	0.35% - 0.60%
Over \$2,000,000	0.30% - 0.60%

### **SMA Program Fees**

The following table details the fee schedule for the SMA Program. The program fee for the SMA Program is dependent on which Investment Manager and/or investment model is selected. The advisory fee that you pay for your SMA Program account will be detailed on the statement of investment selection that you will sign when opening your account. Your advisory fee will not change when we change Investment Managers or investment models.

Account Size	Program Fee
Up to \$500,000	0.63% - 1.35%
\$500,001 - \$1,000,000	0.58% - 1.30%
Over \$1,000,001	0.53% - 1.25%

### **Third Party UMA & SMA Advisory Fees**

We will agree on your advisory fee for each account prior to establishing the account. Your advisory fee will be listed on the statement of investment selection that you sign when opening your account. Your total advisory fee will not exceed 2.50%. The difference between the program fee and the advisory fee that you pay is the management fee that is paid to us for our services. At any time, we may agree to amend the original fee and submit a new statement of investment selection with a different advisory fee listed.

We receive a portion of the wrap fee program as a result of your participation in the program. The amount of this compensation may be more than what we would receive if you participated in our other programs or paid separately for investment advice, brokerage, and other services. Therefore, we may have a financial incentive to recommend the wrap fee program over other programs or services. It also may be more than you may pay for similar services offered by First Allied or other investment advisers. We help mitigate this conflict of interest by ensuring that the program and investments are suitable for your investment goals and that all fees that are charged are reasonable and competitive for the services provided.

### ***Program Fees***

The program fee will vary depending on which program you select. The program fee is an annual percentage of assets under management, billed quarterly. The program fee for the advisory programs

described in this brochure is paid to Baughman and is split between First Allied and the various Strategists or Investment Managers whose services we are utilizing. A portion of the program fee is also paid to service providers that First Allied hires to help them administer the GPS platform. The program fee is not negotiable.

The program fee may also be different based upon the Strategists, Investment Managers, and investment models selected. This difference will not affect the advisory fee that you pay to us, but it does present a conflict of interest in that we may benefit from selecting Strategists, models, or Investment Managers whose fees are lower so that we are able to keep a larger share of your overall fee. We help mitigate this conflict of interest by ensuring that any Strategist, Investment Manager, or investment model selected by you is suitable for your investment goals and that all fees that are charged by the Strategists or Investment Managers are reasonable and competitive for the services provided.

### **Fee Schedules**

Each advisory program has its own fee schedule. The fee schedule will outline the program fee and the management fee. The amount of your advisory fee, as a percentage, may remain the same regardless of the size of your account, or the percentage may decrease as your account balance increases. Your advisory fee will not increase, as a percentage, as your account balance increases.

These programs may cost you more or less than purchasing such services separately.

### **Other Fees**

The fees we receive 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), other regulatory fees or charges imposed by broker-dealers or entities other than the custodian, 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 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. Further information regarding charges and fees assessed by Funds may be found in the appropriate prospectus or offering document.

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. 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).

Under certain conditions, securities from outside accounts may be transferred into your 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.

## **Item 5 - Account Requirements and Types of Clients**

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Most programs we offer have account minimums. The UMA Program has a minimum of \$15,000, but certain investment models available in the UMA Program have higher minimums. The SMA Program has a minimum of \$25,000, but most Investment Managers available in the SMA Program have higher minimums.

Baughman generally will not allow accounts into the UMA Program or SMA Program or certain investment models offered within the UMA Program or SMA Program that do not meet all applicable minimums, however exceptions may be granted based upon your individual circumstances.

Certain types of account registration types prohibit investments in securities other than mutual funds. Should your account registration type restrict the kinds of securities that are purchased in your account, the performance of the account may not match the performance of the investment model selected. In addition, there may be some Strategists, Investment Managers, and investment models that may not be appropriate for these accounts. Should your account have one of these account registration types, we will take into account which Strategists, Investment Managers, and investment models are best for you.

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 6 – Portfolio Manager Selection and Evaluation**

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### **Advisor as Portfolio Manager Evaluation**

We evaluate your investment options in a variety of ways. 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.

### **Third Party Manager Due Diligence**

Either First Allied or Envestnet conducts a review of each third-party manager or platform that provides management services to clients. This process is called “due diligence.” The Strategists that are available in the UMA Program have been reviewed by First Allied and/or Envestnet. The Investment Managers that are available in the SMA Program have also been reviewed either by First Allied and/or Envestnet.

Their due diligence process starts with an initial screening process of a registered investment adviser. This consists of a review of data including the amount of assets under management, the ownership structure, and any regulatory or legal issues. They review an adviser against guidelines, based largely on its answers to a comprehensive questionnaire they require to be completed.

Along with reviewing the questionnaire, a more detailed review of the initial data is conducted, including:

- The ownership structure
- Employees, including investment professionals, marketing and client service staff
- Regulatory, legal, and compliance issues of the adviser
- The manager’s performance, both current and historical
- In some cases, the investment adviser’s financial statements

They have an internal review committee who reviews this information and decides whether the third-party manager will be approved to manage program accounts.

They also conduct an annual review of the third-party managers that have been previously approved. The annual review process follows the same general guidelines as the initial process, including the investment adviser completing a questionnaire. Unless material information is discovered during this review, additional approval is not required to continue the relationship with the investment adviser.

For the advisory programs described in this brochure, the Strategists and Investment Managers available for accounts are all third-party managers. Information about the due diligence processes of First Allied and Envestnet is available in their respective disclosure brochures, one of which will be provided to you when you select a third-party manager where either First Allied or Envestnet conducted due diligence.

### **Our Due Diligence**

We conduct due diligence on our third party managers. This due diligence may include, but is 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
- First Allied due diligence
- Envestnet due diligence

The investment strategies may 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

## **Selection**

We only use third party managers that are suitable given your investment objectives, goals and time horizon. Managers that change their style may be replaced if they are deemed no longer suitable for your portfolio.

We use the GPS platform to calculate the performance of your account. The GPS platform uses industry standard software for performance calculations. We do not verify the accuracy of this software.

Depending upon your account holding, performance information may not be calculated on a uniform and consistent basis.

We do not have any related persons that act as a portfolio manager for any of these wrap fee programs as described in this brochure. We do not act as a portfolio manager for any of the wrap fee programs described in this wrap fee program brochure.

## **Risk of Loss**

You should know that all types of securities investing involve risk. Various types of risk are involved when investing in securities. Economic risk, market risk, currency risk, inflation risk, liquidity risk, and credit risk are examples of the types of risks your account may be subject to. Your account value can increase or decrease over time. You should not invest in any product if you are not prepared to bear a potential loss.

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. 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.

While some types of risk can be mitigated by investment strategies, many of these risks cannot be eliminated completely. We will work with you to make sure that you are comfortable with the risks associated with the type of investments that are in your account.

Past performance does not guarantee future results.

## **Item 7 - Client Information Provided to Portfolio Managers**

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The information that we provide to third-party managers varies depending on the amount of information the manager requests. For UMA Program and SMA Program accounts, information about you is only provided to First Allied, Envestnet, and third-party managers servicing your accounts. Updated information is provided only if the information is necessary in managing your account.

Non-public information is information about you that is not available to the public. Your social security number, your net worth, and your annual income are examples of non-public information. Public information is information about you that is readily accessible to the public. Public information may include your name, phone number, and address. Any or all of this information may be made available to the third party manager.

## **Item 8 - Client Contact with Portfolio Managers**

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We serve as the contact point for any questions or changes you have related to your accounts. The Strategists and Investment Managers are not generally available for you to speak with. However, we may be able to facilitate contact with a Strategist or Investment Manager on your behalf.

## Item 9 - Additional Information

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### Disciplinary Information

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 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.

### Other Financial Industry Activities and Affiliations

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., a registered broker-dealer. 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 First Allied; commissions would be received in his separate capacity as a registered representative of First Allied.

Kurt is also an investment adviser representative with First Allied and can offer you advisory programs and services offered by First Allied. If Kurt offers you First Allied advisory programs or services, he will provide you with the appropriate First Allied disclosure brochure.

Since our advisors may sell insurance and securities products through First Allied 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.

### Code of Ethics, Participation in Client Transactions and Personal Trading

#### Code of Ethics

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.

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

We may trade securities in our account that the third party managers 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.

### **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.

### **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.

## **Review of Accounts**

### **Reviews**

We will review all accounts on a quarterly basis, to insure that the account transactions:

- 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.

If a third-party manager is managing your account, some of these reviews may be performed.

### **Reports**

After the end of each calendar quarter, we create and send performance reports to each client that is invested in the UMA Program or SMA Program. These reports have performance information about



either one account or multiple accounts of the same investor. The reports created for you will generally list the beginning balance for the period, the ending balance for the period, the percentage change in asset level between the beginning and end of the period, and any deposits or withdrawals during the period. There is also information about your account's holdings as of the end of the period, a list of one or more comparable benchmarks, and important disclosure information.

Both you and your advisor have the ability to create additional reports regarding your GPS platform accounts upon demand. Certain of these reports also contain performance information. We may also provide you with reports created by Albridge Wealth Reporting Solutions ("Albridge"). These reports may encompass different information than the quarterly performance reports delivered to you and may include information about brokerage accounts, variable annuities and alternative investments.

The custodian of your account will also send you account statements on a monthly or quarterly basis. Although the information we provide in the performance reports delivered to you has been retrieved from sources believed to be reliable, we urge you to compare the holdings listed on the custodian's statement to those listed on any GPS performance reports or Albridge reports delivered to you. Should you note any discrepancies, please contact us at (408) 354-4840.

## **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.

## **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.

## **Brokerage Practices**

### ***Soft Dollars***

Some firms in the industry receive benefits in exchange for delivering business to a broker/dealer or other third-party. These benefits are known as "soft dollars." Soft dollar benefits are generally defined as benefits (besides normal fees) received from a firm in exchange for doing business with the firm. These benefits may include access to software, hardware, research, and/or office space. We may receive access to product research, services, technology and other educational information to help us operate efficiently, grow our business and deliver exceptional service to clients. Certain vendors 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. Our vendors' 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.

Our vendors 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.

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. We have contracted with First Allied to provide us with access to the GPS Platform and all its 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 the 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 received to make certain the prices you pay are reasonable given every service offered.

### ***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.

### ***Brokerage for Client Referrals***

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

### ***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.

### ***Directed Brokerage***

We do not permit clients to direct us to execute transactions through a specified broker/dealer other than First Allied. Because First Allied is both an investment adviser and a broker/dealer, all client transactions are effected through our broker/dealer relationships. We believe that First Allied allows us to achieve best execution because of their business relationships with Pershing and JP Morgan, our access to First Allied's trading department, our ability to rely on First Allied's financial stability, and First Allied's overall service to us and our IARs. Best execution factors include timeliness of execution, trader expertise, better pricing, and responsiveness. In addition, certain advisory programs are only available through us and our affiliates and these programs allow us to offer you a product or service that you cannot obtain elsewhere. In certain accounts, First Allied may receive 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 First Allied 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 First Allied 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.

### ***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.

For the third-party advisory programs described in this brochure, all responsibility for execution of trades is taken by either Envestnet or the third-party manager. Depending on the method of trading chosen by the third-party manager, trades are aggregated according to either Envestnet's trading policies and procedures or the third-party manager's trading policies and procedures

### ***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.

## **Custody**

We do not custody your account assets. GPS platform account assets are custodied by Pershing or JP Morgan. Pershing and/or JP Morgan will send you account statements either quarterly or more frequently. You should review the account statements carefully and compare these account statements with any GPS performance reports or Albridge reports that we may provide to you. Should you note any discrepancies, please contact us. Because of this, we meet the regulatory definition of having custody of client securities. We ask that any checks you write for deposit into your GPS platform account be made payable to either Pershing or JP Morgan.

Occasionally, we may accept stock certificates from clients and forward them to the broker/dealer for delivery to the client's account with the custodian. We may also have the ability to deduct your quarterly fees from the custodian. 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.

## **Investment Discretion**

For the Advisor Direct program, we usually receive discretionary authority from you at the beginning of the 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.

For the Third Party UMA and SMA programs, we do not have discretion over your assets. However, when you invest in the UMA Program or SMA Program, you are granting full trading authorization to a third-party manager. Full trading authorization allows the third-party manager to make decisions on your behalf regarding purchases and sales of equities, mutual funds, exchange-traded funds, fixed income products including bonds and certificates of deposit, options, and any other security traded on a national exchange. The trading authorization granted in the Baughman Financial Group Investment Advisory Agreement allows either Envestnet or the third-party manager to execute trades for your account without your consent.

Even though we do not have trading authorization in the UMA Program or SMA Program, when you select the UMA Program or SMA Program, you are granting Baughman the authority to select Strategists, models, and Investment Managers for your account without your consent.

### **Voting Client Securities**

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. However, a third-party manager will vote proxies on your behalf in accordance with its policies and procedures. Some third-party manager may hire another firm to vote proxies on its behalf. You may revoke the third-party manager's voting authorization at any time by sending us written notice.