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# **Smith Financial Investment Advisors, Inc.**

**1830 S. Plate Street Kokomo, Indiana 46902**

**(765) 459-4111**

**February 15, 2017**

This Brochure provides information about the qualifications and business practices of Smith Financial Investment Advisors, Inc. If you have any questions about the contents of this Brochure, please contact us at (765) 459-4111 or [aaronsmith@smithfinancial.com](mailto:aaronsmith@smithfinancial.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.

Smith Financial Investment Advisors, Inc. 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 about which you determine to hire or retain an Adviser.

Additional information about Smith Financial Investment Advisors, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## Item 2 – Material Changes

Since the last annual filing of this Form ADV Part 2A, dated March 22, 2016, there have been no material changes.

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#### **Item 4 – Advisory Business**

Smith Financial Investment Advisors, Inc. is a SEC Registered Investment Adviser, founded in January 2009 and Registered with the SEC in May 2010. SFIA is wholly owned by firm's President, Richard A. Smith. Including his time prior to founding SFIA, Richard Smith has over thirty years of experience in the financial services industry. As of December 31, 2016, Smith Financial Investment Advisors manages approximately \$164,560,851 of assets for individual, retirement plan, and charitable foundation clients; we manage \$72,592,316 of these monies on a discretionary basis.

For information on Smith Financial Investment Advisors' key investment personnel, please see our Brochure Supplements.

#### **SERVICES OFFERED**

##### **ADVISORY SERVICES**

Smith Financial Investment Advisors, Inc. offers financial consulting services to clients including investment supervisory services, comprehensive financial planning, retirement planning, education planning, estate planning, business consulting, insurance review, asset allocation, and investment consulting. We believe that any investment, insurance or other financial decision is best made in the context of a client's complete financial picture and in the context of all of a client's financial goals, rather than independently. As part of these services, our advisors will typically collect and analyze a comprehensive package of your financial data, including investments, insurance policies, tax returns, wills and other estate planning documents and financial statements (business and personal), depending on the scope of the engagement. SFIA enters into written agreements outlining the services that clients desire and that we agree to complete.

##### **RETIREMENT PLAN CONSULTING**

SFIA offers various retirement plan services, including investment supervisory services, administration, employee enrollment and education, plan design review, vendor and service provider analysis, fiduciary investment review and recommendation, development of investment policy statement, and investment committee/fiduciary education and consultation. Our process is designed to maximize the participant experience through selection of quality, diversified investment options by implementing a process for plan fiduciaries that complies with relevant laws, regulations and fiduciary best practices, thus protecting plan fiduciaries from liability. As part of these services, our advisors will typically collect plan documents and amendments, government filings, participant statements, plan valuations, asset statements and vendor/provider agreements.

When appropriate, SFIA may advise the purchase of securities as part of a financial or investment plan or as part of Retirement Plan Consulting Services. The client is under no obligation to implement such recommendations with SFIA's advisors. However, if the client does implement these recommendations with one of our advisors, our advisors will generally affect these services through our relationship with MerCap Securities, LLC, a registered broker-dealer. In such an engagement, our advisors may receive additional compensation, in the form of commissions.

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## INVESTMENT ADVICE THROUGH CONSULTATIONS & ADVICE NOT INVOLVING SECURITIES

SFIA also provides investment advice and other advice not involving securities to clients through the course of financial planning services. The fee is a negotiated, flat fee, charged in advance and determined by the complexity of the client's planning needs.

The financial planning process assists the client in determining their goals with regards to retirement, education, life insurance, disability coverage, long-term health care, etc. It provides the framework for future planning decisions based on the client's goals. In addition, budgeting and cash flow management techniques are developed when working with clients.

### **Item 5 – Fees and Compensation**

All fees are subject to negotiation.

The specific manner in SFIA charges fees is established in a client's written agreement with SFIA. SFIA will generally bill its fees on a quarterly basis in advance. Clients may also elect to be billed directly for fees or to authorize SFIA to directly debit fees from client accounts. SFIA will prorate management fees for each capital contribution and withdrawal made during the applicable calendar quarter (with the exception of de minimis contributions and withdrawals). Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, SFIA will promptly refund any prepaid, unearned fees, and any earned, unpaid fees will be due and payable. Our fees for each offered service are explained in more detail below.

### ADVISORY SERVICES AND FEES

SFIA's fees for investment supervisory services are generally a percentage of assets, charged quarterly, in advance, based on market value of managed accounts at the end of the previous quarter. Such asset-based fees may not exceed 2.50% of managed assets. If an account is opened or additional assets are deposited in or transferred to a client account after the beginning of a quarter, fees are assessed on a prorated basis on the market value of the assets at the time of funding reflecting the number of days remaining in the calendar quarter.

Our general fee schedule for these investment advisory services is as follows:

First \$100,000 of assets managed	1.0%
next \$400,000	0.75%
next \$500,000	0.50%
next \$1,000,000	0.40%
assets > \$2,000,000	0.25%

For example, a client that invests \$750,000 with SFIA would pay an (annualized) asset management fee of \$5,250, or 0.70% (\$1,000 on the first \$100,000, \$3,000 on the next \$400,000, and \$1,250 on the next \$250,000).

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## RETIREMENT PLAN CONSULTING

SFIA's ongoing fees for investment supervisory services, administration, employee enrollment and education, plan design review, vendor and service provider analysis, fiduciary investment review and recommendation, development of investment policy statement, and investment committee/fiduciary education and consultation to retirement plans are generally a percentage of plan assets, charged quarterly, in advance, not to exceed 2.50% of plan assets. In circumstances where appropriate, SFIA may charge a flat negotiated fee, disclosed upfront and due in advance. In some situations, the appropriate investment vehicle for a client may pay SFIA's representatives an asset-based trail commission that appropriately compensates SFIA for its advisory services. In such circumstances, the representative is paid a trail commission through the representative's relationship with MerCap Securities, LLC.

Fees are customized by client, based on factors such as number of tasks, complexity of work and number of participants; SFIA does not have a standardized fee schedule.

## INVESTMENT ADVICE THROUGH CONSULTATIONS & ADVICE NOT INVOLVING SECURITIES

Fees for other financial, estate and insurance planning services are generally flat, negotiated fees, payable in advance. We have no standardized fee schedule; fees are negotiated based on factors such as complexity of work, number of tasks and time required.

SFIA's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to SFIA's fee, and SFIA shall not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that SFIA considers in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

Investment Advisor Representatives of SFIA Advisors also act as Registered Representatives of MerCap Securities, LLC. Clients may, but are under no obligation to, execute securities recommendations with SFIA's representatives in their capacity of Registered Representative with MerCap Securities. Such transactions present a conflict of interest to SFIA's advisors to the extent that compensation varies from product-to-product. We address this conflict by disclosing, upfront, the compensation SFIA's advisors will receive, should the client decide to implement securities recommendations in this manner. SFIA primarily recommends mutual funds and exchange traded funds, and will recommend investment in no load funds.

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

SFIA does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

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## **Item 7 – Types of Clients**

SFIA provides portfolio management and financial, insurance and estate planning services to individuals, high net worth individuals, corporate, non-profit and governmental pension and profit-sharing plans and charitable institutions, foundations, endowments.

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

### *Investment Strategies, Methods of Analysis*

Smith Financial Investment Advisors primarily recommends mutual funds and exchange traded funds in constructing portfolios for clients. When we feel it appropriate, we may also include individual fixed income investments (bonds and certificates of deposit); SFIA does not advise on the purchase of individual equity securities (stocks).

Smith Financial Investment Advisors generally constructs portfolios that are long-term in nature, using Modern Portfolio Theory to produce an asset allocation model appropriate for a client's risk tolerance and goals. SFIA selects asset classes strategically, generally with the intent of holding a position in the asset class for many years. Asset classes may include U.S. and Foreign Equities, U.S. and Foreign Fixed Income, Commodities and Real Estate. SFIA selects funds and managers with the same intent: to employ their skills managing in an asset class for the long-term. SFIA may allocate a portion of monies to managers with the flexibility to invest tactically or strategically across several asset classes. Because of our long-term orientation, SFIA expects to trade infrequently.

SFIA primarily uses seven risk-based model portfolios as the base for recommended portfolios that we construct for clients. SFIA's advisors then customize these portfolios to reflect a client's specific needs, such as tax awareness or cash flow, as well as a client's other investment holdings. To fund client cash flow needs over a one- to two- year period of time, SFIA's advisors will allocate monies to more conservative portfolio, consisting primarily of money market securities, certificates of deposits, U.S. government or government agency bonds or mutual funds investing in these or similar securities.

Primarily for retirement plan clients, SFIA Advisors will also analyze and advise on selection of a line-up of mutual funds, exchange traded funds, collective investment funds and investment managers based on a client-specified list of asset classes. Unless a client directs specific criteria for fund or manager selection, SFIA uses the same approach to analyzing funds and managers for SFIA's model portfolios and fund lineups. Specifically, SFIA will review quantitative and qualitative aspects of a fund or manager and the firm associated with the fund or manager. SFIA generally prefers funds with experienced managers, long-term orientation (frequently exhibited by low turnover) and that select securities based on bottom-up analysis of company fundamentals (frequently associated with value-oriented managers), but also employs other strategies.

### *Risks*

Investing in securities involves risk of loss that clients should be prepared to bear. You may lose money investing with SFIA. The likelihood of loss may be greater if you invest for a shorter period of time. Accounts with SFIA are not bank deposits. With the exception of securities issued by a governmental agency or Federally Insured bank, investments are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency, entity or person.

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The primary risks associated with our strategy include:

- Market risk. The risk that the market price of securities owned may go up or down, sometimes rapidly or unpredictably. Such fluctuation may be due to factors affecting securities markets in general, factors affecting a specific industry or factors affecting a specific issuer.
- Interest Rate risk. Fixed Income securities face the risk of price declines when interest rates change; specifically, traditional fixed income securities will decline in value when interest rates rise, and investors may realize a loss of principal if the securities are not held to maturity.
- Credit risk. Fixed Income securities may lose value if the issuer or guarantor of the security is unable or unwilling to make timely principal and/or interest payments or otherwise honor its obligations. Market price declines may occur if market participants perceive that an issuer or guarantor may be unwilling or unable to meet its obligations.
- Mutual fund managers may underperform their benchmark or peers, causing portfolios to underperform relative to similar strategies. Risk associated with specific mutual funds are more thoroughly discussed in each funds' prospectus.
- Asset Allocation risk. The risk that the asset classes that SFIA selects, or the asset classes or industries that fund managers invest in, underperform alternative asset classes or do not reach the value that SFIA or the fund managers expect.

#### **Item 9 – 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 Smith Financial Investment Advisors or the integrity of SFIA's management. SFIA has no information applicable to this Item.

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

Richard Smith, Jeffrey Roche, and Aaron Smith, in addition to their roles as Investment Advisor Representatives of Smith Financial Investment Advisors, are also Registered Representatives of MerCap Securities, LLC.

The principal business of Smith Financial Investment Advisors is as a Registered Investment Adviser. However, Richard Smith is the President of Smith Financial, LLC, which does business under two d/b/a's: (1) Smith Financial and (2) Roche & Smith. Smith Financial offers insurance services, and Roche & Smith is a boutique specialty variable annuity and life insurance placement firm focusing on estate planning cases. SFIA's other advisors and staff also support the operations of Smith Financial and Roche & Smith. Acting in this capacity, Richard, Jeffrey, and Aaron may receive fees or commissions as a result of products sold to clients. Richard Smith will spend approximately 50% of his time providing advisory services, and 50% of his time in the Smith Financial and Roche & Smith operations. Jeffrey Roche will spend approximately 20% of their time providing advisory services and 80% on cases for Roche & Smith. Aaron Smith spends approximately 20% of his time in these other areas.

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The associated persons of SFIA, in their capacity as registered representatives of MerCap Securities, may receive commissions earned on securities transactions directed through MerCap. SFIA will disclose any such fee arrangements. In connection with the placement of client funds into investment companies, compensation may take the form of front-end sales charges, redemption fees and 12(b)-1 fees or a combination thereof. The prospectus for the investment company will give explicit detail as to the method and form of compensation.

Aaron Smith is sole proprietor of Aaron Smith d/b/a Aaron Smith Law Services, an Indiana law firm. When a client or potential client has a need for legal work, Smith Financial Investment Advisors may recommend Aaron Smith Law Services. Clients will receive a disclosure stating the affiliation between Smith Financial Investment Advisors and Aaron Smith Law Services, and clients are not obligated to utilize the law firm.

### **Item 11 – Code of Ethics**

Smith Financial Investment Advisors has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. 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 and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at SFIA must acknowledge the terms of the Code of Ethics annually, or as amended.

SFIA anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which SFIA has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which SFIA its affiliates and/or clients, directly or indirectly, have a position of interest. SFIA's employees and persons associated with SFIA are required to follow SFIA's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of SFIA and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for SFIA's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of SFIA will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of SFIA's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Smith Financial Investment Advisors and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with SFIA's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. SFIA will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in



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the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

Smith Financial Investment Advisor's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Aaron Smith.

It is SFIA's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. SFIA will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

## **Item 12 – Brokerage Practices**

SFIA does not participate in soft dollar or directed brokerage commission arrangements. However, through its relationships with MerCap and Charles Schwab, SFIA does receive certain services and products, such as fundamental research reports, technical and portfolio analyses, pricing services, economic forecasting and general market information, historical data base information and computer software that assist SFIA's investment management process.

The client is under no obligation to affect transactions through the associated persons of SFIA in their capacity as registered representatives of MerCap Securities. The client is free to choose the sources through which investment advisory recommendations may be implemented. If the client chooses to implement investment advisory recommendations using the services of SFIA, such transactions will normally be effected through Charles Schwab. Commissions may be earned which may be higher or lower than other broker-dealers. SFIA has no authority to determine commission rates charged for execution of transactions through Charles Schwab or any other broker-dealer. Charles Schwab is under a regulatory requirement to ensure that high standards of commercial honor and just and equitable principals of trade are observed in the conduct of its business.

The primary aim of SFIA, through Charles Schwab, is to provide timely "best execution" of security trades. In general, orders for the purchase or sale of securities placed first will be executed first, and within a reasonable amount of time of order receipt. When advantageous to accounts, orders may be combined to facilitate execution of a larger block trade. To the extent that an entire block trade cannot be consummated, allocation of securities purchased among accounts will be made in a manner deemed equitable by SFIA or the applicable Investment Manager. When required by a client, SFIA will direct trades to specific brokers. Clients who direct brokerage may forgo benefits from savings on execution costs that may have otherwise obtained through, for example, volume discounts on block trades.

From time-to-time, at least annually, SFIA Advisors reviews broker-dealers to serve as the primary custodian and broker-dealer for SFIA's clients. We focus our analysis on commission rates for mutual fund and exchange traded fund (ETF) trades, as these are the primary investment vehicles that we advise

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our clients invest in, and trading technology, so that we can timely, efficiently and accurately manage client accounts.

### **Item 13 – Review of Accounts**

Smith Financial Investment Advisors reviews advisory client accounts at least quarterly, as agreed to with the client and any significant change in market conditions may prompt a review of all accounts. Reviews of investment accounts typically look at portfolio consistency with regards to client's risk tolerance, tax situation, investment time horizon, performance objectives, and asset allocation instructions. Reviews also cover account holdings, transactions, charges, and performance as provided on Sponsor statements and other account reports. Assets that SFIA advises clients invest in are reviewed continuously. The President and CCO meet quarterly, unless market conditions warrant more frequent evaluation, to discuss changes in model portfolios. Advisory clients who also receive financial planning advice are also reviewed at least annually for adherence to goals. Reviews cover progress toward financial independence, anticipated distributions toward family legacy goals, anticipated distributions for social capital or charitable goals, as well as other goals communicated by the client. In addition, accounts will be reviewed upon notice of changes in a client's circumstances.

All accounts will be reviewed by the President, Richard A. Smith and Chief Compliance Officer, Aaron T. Smith annually. Aaron Smith is responsible for all quarterly reviews.

Clients with advisory accounts are provided with quarterly performance statements. These reports include Time Weighted Returns for the most recent quarter, twelve months and longer time periods, compared to a composite benchmark. In addition, reports show a summary cash flows in and from the portfolio, asset allocation, a holdings report and a comparison of the portfolio asset allocation to SFIA's model allocation for clients of similar risk tolerance. Through our relationship with Schwab Portfolio Technologies, SFIA may, in certain circumstances, also provide consolidated reporting for clients on accounts not managed by SFIA. Clients will also receive monthly or quarterly statements from the custodian or vendor, depending on the activity in the account.

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

Smith Financial Investment Advisors does not compensate any person or entity for referring clients to the firm, and is not party to any arrangement with any person or firm regarding the referral of clients.

### **Item 15 – Custody**

Smith Financial Investment Advisors has custody of client assets to the extent that we may withdraw its fees from client accounts. SFIA also has custody over certain accounts because clients have provided us with login information to retirement plan or bank accounts for the purpose of placing trades and downloading statements. In very limited circumstances, we perform bill pay services at the request of the client, so that we can pay certain pre-approved bills for these clients. SFIA undergoes an annual surprise examination by an independent public accountant to verify client funds and securities in relation to these accounts in which SFIA has custody.

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Smith Financial Investment Advisors urges you to carefully review such statements and compare such official custodial records to the account

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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.

#### **Item 16 – Investment Discretion**

Smith Financial Investment Advisors usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account. To evidence granting discretionary authority, clients execute the custodian's limited power of attorney, which indicates the amount of discretion granted to SFIA. The investment advisory agreement between SFIA and the client also describes the discretionary authority the client grants to SFIA Advisors.

When selecting securities and determining amounts, SFIA observes the investment policies, limitations and restrictions of the clients for which it advises.

Investment guidelines and restrictions must be provided to SFIA in writing.

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

As a matter of firm policy and practice, SFIA does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. SFIA may provide advice to clients regarding the clients' voting of proxies.

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

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about SFIA's financial condition. SFIA has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.