

## Item 1: Cover Page

### **Part 2A of Form ADV Firm Brochure**

March 4, 2016

#### **CLA Financial Advisors, LLC**

SEC File No. 801-77662

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This brochure provides information about the qualifications and business practices and authority of CLA Financial Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at [sohara@CLAFa.net](mailto:sohara@CLAFa.net). The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission or by any state regulatory authority. Registration with the SEC or any state regulatory authority does not imply a certain level of skill or expertise for CLA Financial Advisors or any of its personnel.

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

## **Item 2: Material Changes**

This Firm Brochure is our disclosure document prepared according to regulatory requirements and rules. Consistent with the rules, 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. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

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## Item 4: Advisory Business

### A. Description of Your Advisory Firm

CLA Financial Advisors, LLC ("CLA Financial" and/or the "firm"), is an Illinois limited liability company and an SEC-registered investment adviser. Steve O'Hara is the principal member. CLA Financial has been an investment adviser since March 8, 2011, providing investment advisory and financial planning services.

### B. Description of Advisory Services Offered

CLA Financial is an independent asset management and financial planning firm offering a variety of financial services to individuals and high-net-worth individuals.

#### B.1. Discretionary Asset Management Services

CLA Financial's investment advisory services consist of its management of client accounts on a discretionary basis. CLA Financial structures a portfolio based on an assessment of the client's financial situation, return expectations, sensitivity to volatility, as well as an assessment of the economic and market environment. Clients may impose reasonable restrictions concerning the management of their accounts.

For its discretionary asset management services, CLA Financial receives a limited power of attorney to effect securities transactions on behalf of its clients that include securities and strategies as described in Item 8 of this Brochure. In addition, CLA Financial will remind clients of their obligation to inform CLA Financial of any modifications or restrictions that should be imposed on the management of their accounts. CLA Financial will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives, and tolerance for risk.

#### B.2. Financial Planning Services

Clients will receive a written or oral report (depending on the client's preference) providing a detailed financial plan designed to help achieve their stated financial goals and objectives. CLA Financial uses financial plans for virtually all clients, and for the majority of clients update this planning annually.

Based on the client's needs, financial planning services may include, but are not limited to, the following:

- Preparation of a recommended asset allocation that serves to diversify the client's portfolio among different categories of investments, such as small, medium, and large capitalization securities; corporate and government fixed income (short-, intermediate-, and long-term maturities); emerging market securities (i.e., foreign issuers); alternative investments (hedge funds, real estate, managed futures, private equity and venture capital, as well as funds that aggregate these and other investments); and such other

asset categories that are suitable in light of the client's investment goals, objectives, and risk tolerance.

- Preparation of an investment policy statement setting forth the investment plan of the client, with specific direction in terms of diversification requirements, tax issues, estate planning issues, risk tolerance, retirement, and other identified objectives of the client, including a targeted rate-of-return objective.
- Preparation of a retirement plan that serves to identify whether the client is saving enough and investing in a way that meets retirement objectives in light of the client's financial circumstances and risk tolerance.
- Preparation of cash flow projections to ensure that the client is able to meet daily living expenses and obligations.
- Preparation of plans to address a closely held business owner, such as buy-sell agreements, evaluation of company key-person benefits, and company retirement plans.
- Implementation of an insurance plan to meet the needs of the client, taking into account family, business, and other financial objectives of the client.
- Preparation of an estate plan to ensure that wealth transition, tax, and related issues are met in accordance with the client's wishes. In many instances, an outside attorney will need to be hired to handle specific legal issues that arise in the formation and implementation of an estate plan.

CLA Financial gathers required information through in-depth personal interviews and questionnaires. Information gathered includes a client's current financial status, investment objectives, future goals, and attitudes toward risk. Related documents supplied by the client are carefully reviewed, and a report is prepared covering one or more of the above-mentioned topics as directed by the client.

### **C. Client-Tailored Services and Client-Imposed Restrictions**

Each client's account will be managed on the basis of the client's financial situation and investment objectives, and in accordance with any reasonable restrictions imposed by the client on the management of the account—for example, restricting the type or amount of security to be purchased in the portfolio.

### **D. Wrap Fee Programs**

CLA Financial does not participate in wrap fee programs. (Wrap fee programs offer services for one all-inclusive fee.)

### **E. Client Assets Under Management**

As of December 31, 2015, CLA Financial has \$153.4 million in discretionary and \$1.53 million in non-discretionary assets under management.

## Item 5: Fees and Compensation

### A. Methods of Compensation and Fee Schedule

#### A.1. Asset-Based Fee Schedule

As set forth in Schedule A of the investment advisory services agreement, CLA Financial's investment advisory services basic fee schedule is calculated based upon the client's assets under management as follows:

<u>Market Value of Assets</u>	<u>Annual Fee Rate</u>	<u>Effective Rate Range**</u>
First \$500,000	1.25%	1.25%
Next \$500,000	1.00%	1.25%–1.125%
Next \$1,500,000	0.85%	1.125%–0.96%
Additional assets over \$2,500,000	0.75%	0.96%–0.76%

\*\*For example, the quarterly fee for a \$500,000 account would be calculated as follows:  $(\$500,000 \times .0125 / 4 = \$1562.50$  for an effective annualized rate of 1.25%. The quarterly fee for a \$1,000,000 account would be calculated as follows:  $(\$500,000 \times .0125 / 4) + (\$500,000 \times .01 / 4) = \$1,562.50 + \$1,250 = \$2,812.50$  for an effective annualized rate of 1.125%.

While CLA Financial's fees are not negotiable, CLA may decide in its own discretion to charge a specific client a fee for investment advisory services that is different from the fees set forth in the basic fee schedule above.

CLA Financial requires a minimum account size of \$500,000 for accounts it manages on a discretionary basis. As a result, there is an implied minimum annual advisory fee of \$6,250 at the highest fee tier. For accounts with portfolio values less than \$500,000, clients may be able to receive comparable services at more favorable pricing elsewhere. CLA Financial, in its sole discretion, may waive the required minimum account size.

Asset-based fees are always subject to the investment advisory agreement between the client and CLA Financial. Such fees are payable quarterly in advance. The quarterly fee will be equal to the applicable annual percentage rate (%) divided by 4 ("period effective rate"), multiplied by the net asset value of the client's account(s) on the last business day prior to the quarter being billed. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar quarter. There will be no adjustments for contributions to or distributions from a client's portfolio. Nonpayment of fees may result in the liquidation of client's securities if there is insufficient cash in the account(s). CLA Financial may modify the fee at any time upon thirty (30) days written notice to the client.

A client investment advisory agreement may be canceled at any time by the client, or by CLA Financial with 60 days' prior written notice to the client. Upon termination, CLA Financial will refund any unearned, prepaid fees to the client.

## **A.2. Financial Planning Fees**

Generally, CLA Financial offers its financial planning services for a fixed fee, but in certain circumstances may offer such services for an hourly fee. There is a minimum net worth of \$500,000 for financial planning clients. CLA Financial, in its sole discretion, may waive the required minimum net worth size. Financial planning clients may be able to receive comparable services at more favorable pricing elsewhere.

Generally, an initial financial plan requires a minimum of 20 hours to compile the necessary data, discuss, and formulate recommendations. The fee for an initial financial plan ranges from \$4,000 to \$10,000. In the event the client selects an additional service category, each additional service category would add approximately 2 to 5 hours of additional time to complete. For example, the selection of two service categories would require 22 to 25 hours at an hourly rate of \$200 per hour. Please note that these are good-faith estimates, and factors that could drive the amount of time and cost higher are the number and complexity of assets, number of securities accounts, number of trusts, number and complexity of corporate entities, client-imposed requirements, complexity of tax situation, and related factors.

CLA Financial uses financial plans for virtually all clients, and for the majority of clients CLA Financial updates this planning annually. Typical renewal financial plan fees range from \$3,000 to \$10,000. In select cases, the financial planning may be done on an hourly basis charged at the rate of \$200 per hour or on a reduced project fee as mutually agreed to by the client and CLA Financial.

A financial planning agreement may be terminated by either party for any reason upon receipt of written notice. Upon termination, all fees for the current contract period will be refunded. The client has the right to terminate an agreement without penalty at any time.

## **B. Client Payment of Fees**

### **B.1. Asset-Based Fees**

CLA Financial generally requires clients to authorize the direct debit of fees from their accounts. Exceptions may be granted subject to the firm's consent for clients to be billed directly for our fees. For directly debited fees, the custodian's periodic statements will show each fee deduction from the account. Clients may withdraw this authorization for direct billing of these fees at any time by notifying us or their custodian in writing.

CLA Financial will deduct advisory fees directly from the client's account provided that (i) the client provides written authorization to the qualified custodian, and (ii) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account.

The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.



## **B.2. Financial Planning Fees**

CLA Financial will bill financial planning clients an annual fixed fee that is due upon signing or renewing the contract. A financial planning agreement may be terminated by either party for any reason upon receipt of written notice. Upon termination CLA Financial will refund the entire amount of fees for the contract period.

## **C. Additional Client Fees Charged**

All fees paid for investment advisory services are separate and distinct from the fees and expenses charged by exchange-traded funds, mutual funds, separate account managers, broker-dealers and custodians retained by clients. Such fees and expenses are described in each exchange-traded fund and mutual fund's prospectus, each separate account manager's Form ADV and Brochure and Brochure Supplement or similar disclosure statement, and by any broker-dealer or custodian retained by the client. Clients are advised to read these materials carefully before investing. If a mutual fund also imposes sales charges, a client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using CLA Financial may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

Please refer to the Brokerage Practices section (Item 12) for additional information regarding the firm's brokerage practices.

## **D. Prepayment of Client Fees**

CLA Financial requires the prepayment of its asset-based and financial planning fees. CLA Financial's fees will either be paid directly by the client or disbursed to CLA Financial by the qualified custodian of the client's investment accounts, subject to prior written consent of the client. The custodian will deliver directly to the client an account statement, at least quarterly, showing all investment and transaction activity for the period, including fee disbursements from the account.

A client investment advisory agreement may be canceled at any time by the client, or by CLA Financial with seven days' prior written notice to the client. Upon termination of an asset-based advisory agreement, CLA Financial will refund any unearned, prepaid fees to the client. A financial planning agreement may be terminated by either party for any reason upon receipt of written notice. Upon termination of a financial planning agreement, all fees for the current contract period will be refunded. The client has the right to terminate an agreement without penalty at any time.

## **E. External Compensation for the Sale of Securities to Clients**

CLA Financial's sole member is compensated primarily through advisory fees paid by its clients. CLA Financial may be paid sales, service, or administrative fees for the sale of mutual funds or other investment products. CLA Financial's advisory professionals may receive commission-

based compensation for the sale of securities and insurance products. Please see Item 10.C. for detailed information and conflicts and interest.

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

CLA Financial does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in their best interests.

## Item 7: Types of Clients

CLA Financial offers its investment services to individuals and high-net-worth individuals.

CLA Financial requires a minimum account size of \$500,000 for accounts it manages on a discretionary basis. As a result, there is an implied minimum annual advisory fee of \$6,250 at the highest fee tier. For accounts with portfolio values less than \$6,250, clients may be able to receive comparable services at more favorable pricing elsewhere. CLA Financial, in its sole discretion, may waive the required minimum account size.

For financial planning services, CLA Financial requires a minimum net worth of \$500,000. CLA Financial, in its sole discretion, may waive the required minimum net worth size.

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

### **A. Methods of Analysis and Investment Strategies**

Investing in securities involves risk of loss that clients should be prepared to bear. CLA Financial's methods of analysis may include fundamental and technical analysis, quantitative methods for optimizing client portfolios, computer-based risk/return analysis, and statistical and/or computer models utilizing long-term economic criteria. In addition, CLA Financial reviews research material prepared by others, corporate filings, corporate rating services, and a variety of financial publications.

Fundamental analysis is a method of evaluating a security that entails attempting to measure its intrinsic value by examining related economic, financial, and other qualitative and quantitative factors. Fundamental analysts attempt to study factors that can affect the security's value, including macroeconomic factors (such as the overall economy and industry conditions) and company-specific factors (such as financial condition and management).

Technical analysis is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity.

CLA Financial may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

#### **A.1. Mutual Funds, Exchange-Traded Funds, Independent Investment Managers and Pooled Investment Vehicles, Individual Equity and Fixed Income Securities**

CLA Financial may recommend (i) separate account managers to manage client assets, (ii) no-load and load-waived mutual funds and individual securities (including fixed income instruments), and (iii) pooled investment vehicles. Such management styles may include, among others, large-cap, mid-cap, and small-cap value, growth, and core; international and emerging markets; and alternative investments. CLA Financial may also assist the client in selecting one or more appropriate manager(s) for all or a portion of the client's portfolio. Such managers typically manage assets for clients who commit to the manager a minimum amount of assets established by that manager—a factor that CLA Financial will take into account when recommending managers to clients.

A description of the criteria to be used in formulating an investment recommendation for mutual funds, exchange-traded funds, individual securities (including fixed-income securities), managers, and pooled investment vehicles is set forth below.

CLA Financial has formed relationships with third-party vendors that

- provide a technological platform for separate account management
- prepare performance reports
- perform due diligence monitoring of mutual funds, managers, and pooled investment vehicles

- perform billing and certain other administrative tasks

CLA Financial may utilize additional independent third parties to assist it in recommending and monitoring individual securities, mutual funds, managers, and pooled investment vehicles to clients as appropriate under the circumstances.

CLA Financial reviews certain quantitative and qualitative criteria related to mutual funds and managers and to formulate investment recommendations to its clients. Quantitative criteria may include:

- the performance history of a mutual fund or manager evaluated against that of its peers and other benchmarks
- an analysis of risk-adjusted returns
- an analysis of the manager's contribution to the investment return (e.g., manager's alpha), standard deviation of returns over specific time periods, sector and style analysis
- the fund, sub-advisor, or manager's fee structure
- the relevant portfolio manager's tenure

Qualitative criteria used in recommending mutual funds or managers include the investment objectives and/or management style and philosophy of a mutual fund or manager, a mutual fund or manager's consistency of investment style, and employee turnover and efficiency and capacity. CLA Financial will discuss relevant quantitative and qualitative factors pertaining to its recommendations with clients prior to a client's determination to retain a mutual fund or manager.

Quantitative and qualitative criteria related to mutual funds and managers are reviewed by CLA Financial on a quarterly basis or such other interval as mutually agreed upon by the client and CLA Financial. In addition, mutual funds or managers are reviewed to determine the extent to which their investments reflect efforts to time the market, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the mutual fund or manager by CLA Financial (both of which are negative factors in implementing an asset allocation structure). Based on its review, CLA Financial will make recommendations to clients regarding the retention or discharge of a mutual fund or manager.

CLA Financial may negotiate reduced account minimum balances and reduced fees with managers under various circumstances (for example, for clients with minimum level of assets committed to the manager for specific periods of time, etc.). There can be no assurance that clients will receive any reduced account minimum balances or fees, or that all clients, even if apparently similarly situated, will receive any reduced account minimum balances or fees available to some other clients. Also, account minimum balances and fees may significantly differ between clients. Each client's individual needs and circumstances will determine portfolio weighting, which can have an impact on fees given the mutual funds or managers utilized. CLA Financial will endeavor to obtain equal treatment for its clients with mutual funds or managers, but cannot assure equal treatment.

CLA Financial will regularly review the activities of mutual funds and managers selected by the client. Clients that engage managers or invest in mutual funds should first review and

understand the disclosure documents of those managers or mutual funds, which contain information relevant to such retention or investment, including information on the methodology used to analyze securities, investment strategies, fees and conflicts of interest. Similarly, clients qualified to invest in pooled investment vehicles should review the private placement memoranda or other disclosure materials relating to such vehicles before making a decision to invest.

## **A.2. Material Risks of Investment Instruments**

CLA Financial typically invests in equity securities, corporate debt instruments, municipal fixed income instruments, government securities including asset-backed securities, and options on securities as detailed below:

- Equity securities
- Warrants and rights
- Mutual fund securities
- Exchange-traded funds
- Corporate debt securities, commercial paper, and certificates of deposit
- Municipal securities
- U.S. government securities
- Private placements
- Option contracts on securities
- Pooled investment vehicles
- Structured products
- Government and agency mortgage-backed securities
- Corporate debt obligations
- Mortgage-backed securities
- Collateralized obligations

### **A.2.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

### **A.2.b. Warrants and Rights**

Warrants are securities, typically issued with preferred stock or bonds, that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of the warrant usually represents a premium over the applicable market value of the

common stock at the time of the warrant's issuance. Warrants have no voting rights with respect to the common stock, receive no dividends and have no rights with respect to the assets of the issuer.

Investments in warrants and rights involve certain risks, including the possible lack of a liquid market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors, and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.

#### **A.2.c. Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

#### **A.2.d. Exchange-Traded Funds ("ETFs")**

ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>"), iShares<sup>®</sup> and VIPERs<sup>®</sup>. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market. The funds, as a shareholder of another investment company, will bear their pro rata portion of the other investment company's advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employing the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

#### **A.2.e. Corporate Debt, Commercial Paper, and Certificates of Deposit**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints,



jurisdictional risk (U.S or foreign) and currency risk. If bonds have maturities of 10 years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds also have liquidity and currency risk.

Commercial paper and certificates of deposit are generally considered safe instruments, although they are subject to the level of general interest rates, the credit quality of the issuing bank and the length of maturity. With respect to certificates of deposit, depending on the length of maturity there can be prepayment penalties if the client needs to convert the certificate of deposit to cash prior to maturity.

#### **A.2.f. Municipal Securities**

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax-free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

#### **A.2.g. U.S. Government Securities**

U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

#### **A.2.h. Private Placements**

Private placements carry significant risk in that companies using the private placement market conduct securities offerings that are exempt from registration under the federal securities laws, which means that investors do not have access to public information and such investors are not provided with the same amount of information that they would receive if the securities offering was a public offering. Moreover, many companies using private placements do so to raise equity capital in the start-up phase of their business or require additional capital to complete another phase in their growth objective. In addition, the securities issued in connection with private placements are restricted securities, which means that they are not traded on a secondary market, such as a stock exchange, and they are thus illiquid and cannot be readily converted to cash.

#### **A.2.i. Options on Securities**

A call option is a contract under which the purchaser of the call option, in return for a premium paid, has the right to buy the security (or index) underlying the option at a specified price at any time during the term of the option. The writer of the call option, who receives the premium, has the obligation upon exercise of the option to deliver the underlying security against payment of the exercise price. A put option gives its purchaser, in return for a premium, the right to sell the underlying security at a specified price during the term of the option. The writer of the put, who receives the premium, has the obligation to buy, upon

exercise of the option, the underlying security (or a cash amount equal to the value of the index) at the exercise price. The amount of a premium received or paid for an option is based upon certain factors, including the market price of the underlying security, the relationship of the exercise price to the market price, the historical price volatility of the underlying security, the option period and interest rates.

#### **A.2.j. Pooled Investment Vehicles**

A pooled investment vehicle, such as a commodity pool or investment company, is generally offered only to investors who meet specified suitability, net worth and annual income criteria. Pooled investment vehicles sell securities through private placements and thus are illiquid and subject to a variety of risks that are disclosed in each pooled investment vehicle's confidential private placement memorandum or disclosure document. Investors should read these documents carefully and consult with their professional advisors prior to committing investment dollars. Because many of the securities involved in pooled investment vehicles do not have transparent trading markets from which accurate and current pricing information can be derived, or in the case of private equity investments where portfolio security companies are privately held with no publicly traded market, CLA Financial will be unable to monitor or verify the accuracy of such performance information.

#### **A.2.k. Structured Products**

Structured products are designed to facilitate highly customized risk-return objectives. While structured products come in many different forms, they typically consist of a debt security that is structured to make interest and principal payments based upon various assets, rates or formulas. Many structured products include an embedded derivative component. Structured products may be structured in the form of a security, in which case these products may receive benefits provided under federal securities law, or they may be cast as derivatives, in which case they are offered in the over-the-counter market and are subject to no regulation.

Investment in structured products includes significant risks, including valuation, liquidity, price, credit and market risks. One common risk associated with structured products is a relative lack of liquidity due to the highly customized nature of the investment. Moreover, the full extent of returns from the complex performance features is often not realized until maturity. As such, structured products tend to be more of a buy-and-hold investment decision rather than a means of getting in and out of a position with speed and efficiency.

Another risk with structured products is the credit quality of the issuer. Although the cash flows are derived from other sources, the products themselves are legally considered to be the issuing financial institution's liabilities. The vast majority of structured products are from high-investment-grade issuers only. Also, there is a lack of pricing transparency. There is no uniform standard for pricing, making it harder to compare the net-of-pricing attractiveness of alternative structured product offerings than it is, for instance, to compare the net expense ratios of different mutual funds or commissions among broker-dealers.

### **A.2.I. Government and Agency Mortgage-Backed Securities**

The principal issuers or guarantors of mortgage-backed securities are the Government National Mortgage Association ("GNMA"), Fannie Mae ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). GNMA, a wholly owned U.S. government corporation within the Department of Housing and Urban Development ("HUD"), creates pass-through securities from pools of government-guaranteed (Farmers' Home Administration, Federal Housing Authority or Veterans Administration) mortgages. The principal and interest on GNMA pass-through securities are backed by the full faith and credit of the U.S. government.

FNMA, which is a U.S. government-sponsored corporation owned entirely by private stockholders that is subject to regulation by the secretary of HUD, and FHLMC, a corporate instrumentality of the U.S. government, issue pass-through securities from pools of conventional and federally insured and/or guaranteed residential mortgages. FNMA guarantees full and timely payment of all interest and principal, and FHMLC guarantees timely payment of interest and ultimate collection of principal of its pass-through securities. Mortgage-backed securities from FNMA and FHLMC are *not* backed by the full faith and credit of the U.S. government.

### **A.2.m. Corporate Debt Obligations**

Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a maturity of less than nine months. In addition, CLA Financial may also invest in corporate debt securities registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

### **A.2.n. Mortgage-Backed Securities**

Mortgage-backed securities represent interests in a pool of mortgage loans originated by lenders such as commercial banks, savings associations, and mortgage bankers and brokers. Mortgage-backed securities may be issued by governmental or government-related entities, or by non-governmental entities such as special-purpose trusts created by commercial lenders.

Pools of mortgages consist of whole mortgage loans or participations in mortgage loans. The majority of these loans are made to purchasers of between one and four family homes. The terms and characteristics of the mortgage instruments are generally uniform within a pool but may vary among pools. For example, in addition to fixed-rate, fixed-term mortgages, CLA Financial may purchase pools of adjustable-rate mortgages, growing equity mortgages, graduated payment mortgages and other types. Mortgage poolers apply qualification standards to lending institutions, which originate mortgages for the pools as well as credit standards and underwriting criteria for individual mortgages included in the pools. In addition,

many mortgages included in pools are insured through private mortgage insurance companies.

Mortgage-backed securities differ from other forms of fixed income securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or on specified call dates. Most mortgage-backed securities, however, are pass-through securities, which means that investors receive payments consisting of a pro rata share of both principal and interest (less servicing and other fees), as well as unscheduled prepayments as loans in the underlying mortgage pool are paid off by the borrowers. Additional prepayments to holders of these securities are caused by prepayments resulting from the sale or foreclosure of the underlying property or refinancing of the underlying loans. As prepayment rates of individual pools of mortgage loans vary widely, it is not possible to accurately predict the average life of a particular mortgage-backed security. Although mortgage-backed securities are issued with stated maturities of up to 40 years, unscheduled or early payments of principal and interest on the mortgages may shorten considerably the securities' effective maturities.

#### **A.2.o. Collateralized Obligations**

Collateralized mortgage obligations ("CMOs") are collateralized by mortgage-backed securities issued by GNMA, FHLMC or FNMA ("mortgage assets"). CMOs are multiple-class debt obligations. Payments of principal and interest on the mortgage assets are passed through to the holders of the CMOs as they are received, although certain classes (often referred to as "tranches") of CMOs have priority over other classes with respect to the receipt of mortgage prepayments. Each tranche is issued at a specific or floating coupon rate and has a stated maturity or final distribution date. Interest is paid or accrues in all tranches on a monthly, quarterly or semi-annual basis. Payments of principal and interest on mortgage assets are commonly applied to the tranches in the order of their respective maturities or final distribution dates, so that generally no payment of principal will be made on any tranche until all other tranches with earlier stated maturity or distribution dates have been paid in full.

Collateralized debt obligations ("CDOs") include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust that is backed by a diversified pool of high-risk, below-investment-grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans.

## **B. Investment Strategy and Method of Analysis Material Risks**

### **B.1. Leverage**

Although CLA Financial as a general business practice does not utilize leverage, there may be instances in which exchange-traded funds and, in very limited circumstances, CLA Financial will utilize leverage. In this regard please review the following:

The use of leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment. The use of leverage entails borrowing, which results in additional interest costs to the investor.

Broker-dealers that carry customer accounts have a minimum equity requirement when clients utilize leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to withdraw cash, or satisfy a margin deposit the client must sell a disproportionate amount of collateral securities to release enough cash to either satisfy the withdrawal or margin deposit amount based upon similar reasoning as cited above.

Regulations concerning the use of leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

## **B.2. Short-Term Trading**

Although CLA Financial, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-frequency trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

## **B.3. Short Selling**

CLA Financial generally does not engage in short selling but reserves the right to do so in the exercise of its sole judgment. Short selling involves the sale of a security that is borrowed rather than owned. When a short sale is effected, the investor is expecting the price of the security to decline in value so that a purchase or closeout of the short sale can be effected at a significantly lower price. The primary risks of effecting short sales is the availability to borrow the stock, the unlimited potential for loss, and the requirement to fund any difference between the short credit balance and the market value of the security.

## **B.4. Option Strategies**

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. Options entail greater risk but allow an investor to have market exposure to a particular security or group of securities without the capital commitment required to purchase

the underlying security or groups of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

CLA Financial as part of its investment strategy may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases
- Option spreading
- Short call option strategy
- Short put option strategy
- Equity collars
- Long straddles

#### **B.4.a. Covered Call Writing**

Covered call writing is the sale of in-, at-, or out-of-the money call option against a long security position held in the client's portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

#### **B.4.b. Long Call Option Purchases**

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.4.c. Long Put Option Purchases**

Long put option purchases allow the option holder to sell or "put" the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.4.d. Option Spreading**

Option spreading usually involves the purchase of a call option and the sale of a call option at a higher contract strike price, both having the same expiration month. The purpose of this type of transaction is to allow the holder to be exposed to the general market characteristics

of a security without the outlay of capital to own the security, and to offset the cost by selling the call option with a higher contract strike price. In this type of transaction, the spread holder “locks in” a maximum profit, defined as the difference in contract prices reduced by the net cost of implementing the spread. There are many variations of option spreading strategies; please contact the Options Clearing Corporation for a current Options Risk Disclosure Statement that discusses each of these strategies.

#### **B.4.e. Short Call Option Strategy**

Short call option strategy is highly speculative and has theoretical potential for unlimited loss. The seller (writer) of the call option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain below the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security increase above the contract strike price, then the option writer can either purchase the call option at a loss, or through a process of exercise and assignment be forced to sell the stock at the contract strike price. If this happens, the option writer will have to go in the open market and buy an equivalent amount of stock to cover the sale at prices that can be materially higher than the amount received from the sale.

#### **B.4.f. Short Put Option Strategy**

Short put option strategy is highly speculative and has theoretical potential for significant loss. The seller (writer) of the put option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain above the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security decrease below the contract strike price, the option writer can either purchase the put option at a loss, or through a process of exercise and assignment be forced to buy the stock at the contract strike price. If this happens, the option writer will be purchasing the underlying security at a price potentially well above its then-current market value, exposing the investor to potential loss.

#### **B.4.g. Equity Collar**

A collar combines both a cap and a floor. A cap gives the purchaser of the cap the right (for a premium payment), but not the obligation, to receive the difference in the cost on some amount when a specified index rises above the specified “cap rate.” A floor is the opposite of a cap—it gives the purchaser of the floor the right (for a premium payment), but not the obligation, to receive the difference in interest payable on an amount when a specified index falls below the specified “floor rate.” A collar involving stock is called an “equity collar.” In a collar transaction, the buyer of the collar purchases a cap while selling a floor indexed to the same rate or asset. A zero-cost collar results when the premium earned by selling a floor exactly offsets the cap premium.



**B.4.h. Long Straddle**

A long straddle is the purchase of a long call and a long put with the same underlying security, expiration date and strike price. This is a speculative trade that may be profitable when volatility is high and will result in a loss when prices of the underlying security are relatively stable.

**C. Security-Specific Material Risks**

There is an inherent risk for clients whose investment portfolios lack diversification—that is, they have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.

CLA Financial invests in a diversified portfolio of equity and fixed income securities. Please refer to Item 8.A. above.



## **Item 9: Disciplinary Information**

### **A. Criminal or Civil Actions**

There is nothing to report on this item.

### **B. Administrative Enforcement Proceedings**

There is nothing to report on this item.

### **C. Self-Regulatory Organization Enforcement Proceedings**

There is nothing to report on this item.

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

### **A. Broker-Dealer or Representative Registration**

Neither CLA Financial nor its affiliates are registered broker-dealers and do not have an application to register pending.

Mr. Steve O'Hara is associated with Purshe Kaplan Sterling Investments ("PKS"), a FINRA- and SEC-registered broker-dealer and member of SIPC. PKS is a financial services company engaged in the sale of investment products. Approximately 85% of Mr. O'Hara's time is attributable to the functions of CLA Financial, while the remaining 15% of time is allocated to the function of commission sales as a registered representative of PKS and the balance spent fulfilling his obligations as the President of the Financial Planning Association.

A potential conflict of interest may be deemed to exist as a result and in that regard please note the following:

- A conflict of interest may exist between CLA Financial and its clients;
- The client is under no obligation to act upon Mr. O'Hara's recommendation; and
- If the client elects to act on any of the recommendations, the client is under no obligation to effect the transaction through CLA Financial or PKS.

### **B. Futures or Commodity Registration**

Neither CLA Financial nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator, or commodity trading adviser and do not have an application to register pending.

### **C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

#### **C.1. Purshe Kaplan Sterling**

Managers, members, and registered personnel of CLA Financial are associated persons of Purshe Kaplan Sterling Investments ("PKS"), a FINRA-registered broker-dealer and member of SIPC. As a result, such professionals, in their capacity as registered representatives of PKS, are subject to the oversight of PKS and the Financial Industry Regulatory Authority, Inc. ("FINRA"). As such, clients of CLA Financial should understand that their personal and account information is available to FINRA and PKS personnel in the fulfillment of their oversight obligations and duties.

CLA Financial professionals who effect transactions for advisory clients may receive transaction or commission compensation from PKS. The recommendation of securities transactions for commission creates a conflict of interest in that CLA Financial is economically incented to effect securities transactions for clients. Although CLA Financial strives to put its clients' interests first, such recommendations may be viewed as being in the best interests of CLA Financial rather than

in the client's best interest. CLA Financial advisory clients are not compelled to effect securities transactions through PKS.

### **C.2. Relationships with Several Insurance Firms**

Certain managers, members, and registered employees of CLA Financial are agents for certain insurance carriers. With respect to the provision of financial planning services, CLA Financial professionals may recommend insurance products offered by such carriers for whom they function as agents and receive a commission for doing so. Clients are advised of a potential conflict of interest in that there is an economic incentive to recommend insurance and other investment products of such carriers. Clients are also advised that CLA Financial professionals strive to put their clients' interests first and foremost. Other than for insurance products that require a securities license, such as variable insurance products, clients may utilize any insurance carrier or insurance agency they desire. For products requiring a securities and insurance license, clients may be limited to those insurance carriers that have a selling agreement with CLA Financial professionals' employing broker-dealer.

### **C.2. Red Wolverine LLC**

Red Wolverine LLC is an entity formed solely for the purpose of acquiring the office building that CLA Financial Advisors currently resides. There is no other activity with which Red Wolverine has involvement.

## **D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest**

CLA Financial does not recommend investment products in which it receives any form of compensation from the separate account manager or investment product sponsor.

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

### **A. Code of Ethics Description**

CLA Financial has a Code of Ethics that its access persons are required to follow. The Code of Ethics outlines proper conduct related to all services provided to clients. The firm's Chief Compliance Officer, who is its sole individual member, regularly evaluates his performance to ensure compliance with the Code of Ethics. In general, the Code of Ethics consists of the following core principles:

- The interests of clients will be placed ahead of the firm's or the sole individual member's own investment interests.
- The sole individual member is expected to conduct his personal securities transactions in accordance with the firm's Personal Trading Policy and will strive to avoid any actual or perceived conflict of interest with the clients.
- The sole individual member will not take inappropriate advantage of his position with the firm.
- The sole individual member is expected to act in the best interests of each of the firm's clients.
- The sole individual member is expected to comply with state and federal securities laws.

A copy of the Code of Ethics is available to any client or prospective client upon request.

### **B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

CLA Financial does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). In addition, CLA Financial does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

### **C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

CLA Financial, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may purchase the same securities as are purchased for clients in accordance with its Code of Ethics policies and procedures. The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by the client, or
- considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which CLA Financial specifically prohibits. CLA Financial has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in the client's best interest
- prohibit fraudulent conduct in connection with the trading of securities in a client account
- prohibit employees from personally benefitting by causing a client to act, or fail to act in making investment decisions
- prohibit the firm or its employees from profiting or causing others to profit on knowledge of completed or contemplated client transactions
- allocate investment opportunities in a fair and equitable manner
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

Advisory representatives and employees must follow CLA Financial's procedures when purchasing or selling the same securities purchased or sold for the client.

#### **D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

CLA Financial, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other CLA Financial clients. CLA Financial will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation. It is the policy of CLA Financial to place the clients' interests above those of CLA Financial and its employees.

## Item 12: Brokerage Practices

### A. Factors Used to Select Broker-Dealers for Client Transactions

#### A.1. Custodian Recommendations

CLA Financial may recommend that clients establish brokerage accounts with Charles Schwab & Co., Inc. ("Schwab"), FINRA-registered broker-dealer, member SIPC, or TD Ameritrade, Inc. ("TD Ameritrade"), member FINRA/SIPC/NFA, (herein collectively referred to as "custodian"), to maintain custody of clients' assets and to effect trades for their accounts. Although CLA Financial may recommend that clients establish accounts at the custodian, it is the client's decision to custody assets with the custodian. CLA Financial is independently owned and operated and not affiliated with the custodian.

For CLA Financial client accounts maintained in its custody, the custodian generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through the custodian or that settle into the custodian's accounts.

In certain instances and subject to approval by CLA Financial, CLA Financial will recommend to clients certain broker-dealers and/or custodians based on the needs of the individual client, taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by CLA Financial will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities; as a result there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

##### A.1.a. TD Ameritrade Institutional

CLA Financial participates in the institutional customer program of TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade"), member FINRA/SIPC/NFA. TD Ameritrade is an independent and unaffiliated SEC-registered broker-dealer. TD Ameritrade offers to independent investment advisers services which include custody of securities, trade execution, clearance, and settlement of transactions. CLA Financial receives some benefits from TD Ameritrade through its participation in the program. (Please see the disclosure under Item 14 of this Brochure.)

##### A.1.b. How We Select Brokers/Custodians to Recommend

CLA Financial seeks to recommend a custodian/broker who will hold client assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others, the following:

- combination of transaction execution services along with asset custody services (generally without a separate fee for custody)
- capability to execute, clear, and settle trades (buy and sell securities for client accounts)
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- breadth of investment products made available (stocks, bonds, mutual funds, exchange-traded funds (ETFs), etc.)
- availability of investment research and tools that assist us in making investment decisions
- quality of services
- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them
- reputation, financial strength, and stability of the provider
- their prior service to us and our other clients
- availability of other products and services that benefit us, as discussed below

#### **A.1.c. Client's Custody and Brokerage Costs**

For client accounts that the firm maintains, the custodian generally does not charge clients separately for custody services but is compensated by charging commissions or other fees on trades that it executes or that settle into the custodian's accounts. The custodian's commission rates applicable to the firm's client accounts were negotiated based on the firm's commitment to maintain a certain minimum amount of client assets at the custodian. This commitment benefits the client because the overall commission rates paid are lower than they would be if the firm had not made the commitment. In addition to commissions, the custodian charges a flat dollar amount as a "prime broker" or "trade away" fee for each trade that the firm has executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into the client's custodian account. These fees are in addition to the commissions or other compensation the client pays the executing broker-dealer. Because of this, in order to minimize the client's trading costs, the firm has the custodian execute most trades for the account.

#### **A.1.d. Soft Dollar Arrangements**

CLA Financial does not utilize soft dollar arrangements. CLA Financial does not direct brokerage transactions to executing brokers for research and brokerage services.

#### **A.1.e. Institutional Trading and Custody Services**

The custodian provides CLA Financial with access to its institutional trading and custody services, which are typically not available to the custodian's retail investors. These services generally are available to independent investment advisers on an unsolicited basis, at no charge to them so long as a certain minimum amount of the adviser's clients' assets are maintained in accounts at the custodian. These services are not contingent upon CLA Financial committing to the custodian any specific amount of business (assets in custody or trading

commissions). The custodian's 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. CLA Financial may take into account the availability of some of the foregoing services and other arrangements as part of the total mix of factors it considers, and not solely the nature, cost, or quality of custody and brokerage services provided by the custodian, which may create a potential conflict of interest in that CLA may recommend custodians based upon its interests rather than the interest of its clients.

#### **A.1.f. Other Products and Services**

The custodian also makes available to CLA Financial other products and services that benefit CLA Financial but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of CLA Financial's accounts, including accounts not maintained at the custodian. The custodian also makes available to CLA Financial its managing and administering software and other technology that

- provide access to client account data (such as trade confirmations and account statements)
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- provide research, pricing, and other market data
- facilitate payment of Avocet's fees from its clients' accounts
- assist with back-office functions, recordkeeping, and client reporting

The custodian also offers other services intended to help CLA Financial manage and further develop its business enterprise. These services may include

- compliance, legal, and business consulting
- publications and conferences on practice management and business succession
- access to employee benefits providers, human capital consultants, and insurance providers

The custodian may also provide other benefits, such as educational events or occasional business entertainment of CLA Financial personnel. In evaluating whether to recommend that clients custody their assets at the custodian, CLA Financial 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 it considers, and not solely the nature, cost, or quality of custody and brokerage services provided by the custodian, which may create a potential conflict of interest.

#### **A.1.g. Independent Third Parties**

The custodian may make available, arrange, and/or pay third-party vendors for the types of services rendered to CLA Financial. The custodian may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third party providing these services to CLA Financial.



**A.1.h. Additional Compensation Received from Custodians**

CLA Financial may participate in institutional customer programs sponsored by broker-dealers or custodians. CLA Financial may recommend these broker-dealers or custodians to clients for custody and brokerage services. There is no direct link between CLA Financial's participation in such programs and the investment advice it gives to its clients, although CLA Financial receives economic benefits through its participation in the programs that are typically not available to retail investors. These benefits may include the following products and services (provided without cost or at a discount):

- Receipt of duplicate client statements and confirmations
- Research-related products and tools
- Consulting services
- Access to a trading desk serving CLA Financial participants
- Access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts)
- The ability to have advisory fees deducted directly from client accounts
- Access to an electronic communications network for client order entry and account information
- Access to mutual funds with no transaction fees and to certain institutional money managers
- Discounts on compliance, marketing, research, technology, and practice management products or services provided to CLA Financial by third-party vendors

The custodian may also pay for business consulting and professional services received by CLA Financial's related persons, and may pay or reimburse expenses (including travel, lodging, meals and entertainment expenses for CLA Financial's personnel to attend conferences). Some of the products and services made available by such custodian through its institutional customer programs may benefit CLA Financial but may not benefit its client accounts. These products or services may assist CLA Financial in managing and administering client accounts, including accounts not maintained at the custodian as applicable. Other services made available through the programs are intended to help CLA Financial manage and further develop its business enterprise. The benefits received by CLA Financial or its personnel through participation in these programs do not depend on the amount of brokerage transactions directed to the broker-dealer.

CLA Financial also participates in similar institutional advisor programs offered by other independent broker-dealers or trust companies, and its continued participation may require CLA Financial to maintain a predetermined level of assets at such firms. In connection with its participation in such programs, CLA Financial will typically receive benefits similar to those listed above, including research, payments for business consulting and professional services received by CLA Financial's related persons, and reimbursement of expenses (including travel, lodging, meals and entertainment expenses for CLA Financial's personnel to attend conferences sponsored by the broker-dealer or trust company).

As part of its fiduciary duties to clients, CLA Financial endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by CLA Financial or its related persons in and of itself creates a potential conflict of interest and may indirectly influence CLA Financial's recommendation of broker-dealers such as Schwab for custody and brokerage services.

#### **A.1.i. The Firm's Interest in Schwab's Services**

The availability of these services from the custodian benefits the firm because the firm does not have to produce or purchase them. The firm does not have to pay for the custodian's services so long as a certain minimum of client assets is kept in accounts at the custodian. These services are not contingent upon the firm committing any specific amount of business to the custodian in trading commissions or assets in custody. This minimum of client assets may give the firm an incentive to recommend that clients maintain their accounts with the custodian based on the firm's interest in receiving the custodian's services that benefit the firm's business rather than based on the client's interest in receiving the best value in custody services and the most favorable execution of client transactions. This is a potential conflict of interest. The firm believes, however, that the selection of the custodian as custodian and broker is in the best interest of clients. It is primarily supported by the scope, quality, and price of the custodian's services and not the custodian's services that benefit only the firm.

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

CLA Financial does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

#### **A.3. Directed Brokerage**

##### **A.3.a. CLA Financial Recommendations**

CLA Financial typically recommends Schwab or TD Ameritrade as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

##### **A.3.b. Client-Directed Brokerage**

Occasionally, clients may direct CLA Financial to use a particular broker-dealer to execute portfolio transactions for their accounts or request that certain types of securities not be purchased for their accounts. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage CLA Financial derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. CLA Financial loses the ability to aggregate trades with other CLA Financial advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

## **B. Aggregating Securities Transactions for Client Accounts**

### **B.1. Best Execution**

CLA Financial, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, the amount of such securities, and the broker or dealer to be used to effect such transactions. CLA Financial recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. CLA Financial will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

- The financial strength, reputation, and stability of the broker
- The efficiency with which the transaction is effected
- The ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- The availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- The efficiency of error resolution, clearance, and settlement
- Block trading and positioning capabilities
- Performance measurement
- Online access to computerized data regarding customer accounts
- Availability, comprehensiveness, and frequency of brokerage and research services
- Commission rates
- The economic benefit to the client
- Related matters involved in the receipt of brokerage services

### **B.2. Security Allocation**

Since CLA Financial may be managing accounts with similar investment objectives, the firm may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by CLA Financial in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts. Such aggregate orders may include transactions for accounts for employee benefit plans and private investment vehicles such as limited partnerships or limited liability companies in which CLA Financial, its affiliates, principals, or employees are among the investors.

CLA Financial's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account clients' best interests. CLA Financial will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

CLA Financial's advice to certain clients and entities and the action of CLA Financial for those and other clients are frequently premised not only on the merits of a particular investment but also on the suitability of that investment for the particular client in light of his or her applicable

investment objectives, guidelines, and circumstances. Thus, any action of CLA Financial with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice, or actions of CLA Financial to or on behalf of other clients.

### **B.3. Order Aggregation**

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order shall receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average-priced. However, when a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if CLA Financial believes that a larger size block trade would lead to best overall price for the security being transacted.

### **B.4. Allocation of Trades**

All allocations will be made prior to the close of business on trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs, and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

CLA Financial acts in accordance with its duty to seek best price and execution and will not continue any arrangements if it determines that such arrangements are no longer in the best interests of clients.

## **Item 13: Review of Accounts**

### **A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved**

Accounts are reviewed by CLA Financial's manager, Steve O'Hara. The frequency of reviews is determined based on the client's investment objectives, but reviews are conducted no less frequently than annually. More frequent reviews may also be triggered by a change in the client's investment objectives, tax considerations, large deposits or withdrawals, large purchases or sales, loss of confidence in corporate management, or changes in the macroeconomic climate. Financial planning clients receive their financial plans and recommendations at the time service is completed. There are no post-plan reviews unless engaged to do so by the client.

### **B. Review of Client Accounts on Non-Periodic Basis**

CLA Financial may perform ad hoc reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how CLA Financial formulates investment advice.

### **C. Content of Client-Provided Reports and Frequency**

All investment advisory clients receive customized performance reports of their accounts as well as comparative performance of underlying benchmark market indices and of their benchmark composite index. Investment advisory clients also receive standard account statements from the custodian of their accounts on a monthly basis, but no less frequently than annually. Financial planning clients do not normally receive investment reports. There are no post-plan reviews unless engaged to do so by the client.

## Item 14: Client Referrals and Other Compensation

### A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest

#### A.1. TD Ameritrade

As disclosed under Item 12, CLA Financial participates in TD Ameritrade's institutional customer program and may recommend TD Ameritrade Institutional to clients for custody and brokerage services. There is no direct link between CLA Financial's participation in the program and the investment advice it gives to clients, although the firm receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided either without cost or at a discount):

- Receipt of duplicate client statements and confirmations
- Research related products and tools
- Consulting services
- Access to a trading desk serving our clients
- Access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to our client's accounts)
- The ability to have advisory fees deducted directly from our client's
- Access to an electronic communications network for client order entry and account information
- Access to mutual funds with no transaction fees, and to certain institutional money managers
- Discounts on compliance, marketing, research, technology, and practice management products or services provided to our firm by third-party vendors

TD Ameritrade may also have paid for business consulting and professional services received by CLA Financial's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit CLA Financial but may not benefit its clients' accounts. These products or services may assist CLA Financial in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help CLA Financial manage and further develop its business enterprise. The benefits received by CLA Financial or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade.

As part of its fiduciary duties to clients, CLA Financial endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by CLA Financial or its related persons in and of itself creates a potential conflict of interest and may indirectly influence CLA Financial's choice of TD Ameritrade for custody and brokerage services.

## **B. Advisory Firm Payments for Client Referrals**

CLA Financial does not make payment for client referrals.

## Item 15: Custody

Clients will receive at least quarterly account statements directly from their qualified custodian containing a description of all activity, cash balances, and portfolio holdings in their accounts. CLA Financial urges its clients to compare the account balance(s) shown on their CLA Financial performance report to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account.



## **Item 16: Investment Discretion**

Clients may grant a limited power of attorney to CLA Financial with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In such cases, CLA Financial will exercise full discretion as to the nature and type of securities to be purchased and sold, the amount of securities, and the broker or dealer used for such transactions. Investment limitations may be designated by the client as outlined in the investment advisory agreement.

## Item 17: Voting Client Securities

CLA Financial does not take discretion with respect to voting proxies on behalf of its clients. CLA Financial will endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by, or with respect to, issuers of securities beneficially held as part of CLA Financial supervised and/or managed assets. In no event will CLA Financial take discretion with respect to voting proxies on behalf of its clients.

Except as required by applicable law, CLA Financial will not be obligated to render advice or take any action on behalf of clients with respect to assets presently or formerly held in their accounts that become the subject of any legal proceedings, including bankruptcies.

From time to time, securities held in the accounts of clients will be the subject of class action lawsuits. CLA Financial has no obligation to determine if securities held by the client are subject to a pending or resolved class action lawsuit. CLA Financial also has no duty to evaluate a client's eligibility or to submit a claim to participate in the proceeds of a securities class action settlement or verdict. Furthermore, CLA Financial has no obligation or responsibility to initiate litigation to recover damages on behalf of clients who may have been injured as a result of actions, misconduct, or negligence by corporate management of issuers whose securities are held by clients.

Where CLA Financial receives written or electronic notice of a class action lawsuit, settlement, or verdict affecting securities owned by a client, it will forward all notices, proof of claim forms, and other materials to the client. Electronic mail is acceptable where appropriate and where the client has authorized contact in this manner.

## **Item 18: Financial Information**

### **A. Balance Sheet**

CLA Financial does not require the prepayment of fees of \$1200 or more, six months or more in advance, and as such is not required to file a balance sheet.

### **B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

CLA Financial does not have any financial issues that would impair its ability to provide services to clients.

### **C. Bankruptcy Petitions During the Past Ten Years**

There is nothing to report on this item.