

## **Item 1 Cover Page**

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**This brochure provides information about the qualifications and business practices of Paragon Financial Partners. If you have any questions about the contents of this brochure, please contact us at 310-557-1515. 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. Registration as a registered investment advisor does not imply a certain level of skill or training.**

**Additional information about Paragon Financial Partners also is available on the SEC's website at <http://www.adviserinfo.sec.gov>.**

## **Item 2 Material Changes**

October 1, 2012 – Item 1 was updated to change the address of the firm.

The material changes discussed above are only those changes that have been made to this brochure since the firm's last annual update of the brochure. The date of the last annual update of the brochure was April 2, 2012.

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#### **Item 4 Advisory Business**

Paragon Financial Partners is a new registered investment advisor firm registered with the Securities Exchange Commission (“SEC”) since June 13, 2011.

The principal owner of Paragon Financial Partners is Evan F. Shorten, President and Chief Compliance Officer.

Paragon Financial Partners (“Paragon”) or “Advisor” principal service is providing fee-based investment advisory services and financial planning services. The Advisor practices custom management of portfolios, on a discretionary basis, according to the client’s objectives. The Advisor’s primary approach is to use a tactical allocation strategy aimed at reducing risk and increasing performance. The Advisor may use any of the following: exchange listed securities, over-the-counter securities, foreign securities, corporate debt securities, CDs, variable life insurance, variable annuities, municipal securities, mutual funds, United States government securities, and interests in partnerships investing in real estate and oil and gas interests to accomplish this objective. The Advisor measures and selects mutual funds by using various criteria, such as the fund manager’s tenure, and/or overall career performance. The Advisor may recommend, on occasion, redistributing investment allocations to diversify the portfolio in an effort to reduce risk and increase performance. The Advisor may recommend specific stocks to increase sector weighting and/or dividend potential. The Advisor may recommend employing cash positions as a possible hedge against market movement which may adversely affect the portfolio. The Advisor may recommend selling positions for reasons that include, but are not limited to, harvesting capital gains or losses, business or sector risk exposure to a specific security or class of securities, overvaluation or overweighting of the position(s) in the portfolio, change in risk tolerance of client, or any risk deemed unacceptable for the client’s risk tolerance.

Paragon will provide investment advisory services and portfolio management services and will not provide securities custodial or other administrative services.

#### **Financial Planning**

In addition to investment supervisory services, Paragon may provide financial planning services to some of its clients. The Advisor’s financial planning services may include recommendations for portfolio customization based on their client’s investment objectives, goals and financial situation. Financial planning services may also include recommendations relating to investment strategies as well as tailored investment advice. The financial planning services may also include providing advice on matters not involving securities, such as tax planning, retirement planning, and education planning.

Paragon will tailor its advisory services to its client’s individual needs based on meetings and conversations with the client. If clients wish to impose certain restrictions on investing in certain securities or types of securities, the Advisor will address those restrictions with the client to have a clear understanding of the client’s requirements.

Paragon does not provide portfolio management services to wrap fee programs.

As of December 31, 2012, Paragon had the following client assets under management:

Discretionary	\$47,463,000
Non-discretionary	<u>\$49,855,000</u>
Total	\$97,318,000

## **Item 5 Fees and Compensation**

### Asset Management Fees

Pursuant to an investment advisory contract signed by each client, the client will pay Paragon a quarterly management fee, payable in advance, based on the value of portfolio assets of the account managed by the Advisor as of the close of business on the last business day of the prior quarter based on the table below. New account fees will be prorated from the inception of the account to the end of the quarter.

<b>Account Size</b>	<b>Annual Fee</b>
Less than \$1 million	1.50%
\$1 million to \$2 million	1.00%
\$2 million to \$6 million	0.85%
\$6 million to \$7 million	0.75%
\$7 million to \$10 million	0.60%
Over \$10 million	0.50%

These fees may be negotiated at the sole discretion of the Advisor. Asset management fees will be automatically deducted from the client account on a quarterly basis by the qualified custodian. The client will give written authorization permitting the Advisor to be paid directly from their account held by the custodian, and the custodian will send a statement at least quarterly to the client.

### Hourly Fee

Some clients will contract to have financial planning advice provided based on an hourly fee basis. The Advisors hourly fee will be billed at a rate of \$350 per hour, but may be negotiated in advance. Hourly fee-based clients are billed on a monthly basis upon completion of work performed.

### Fixed Fees

Paragon may charge a fixed fee for financial planning services of ranging from \$2,500 to \$50,000 per plan as negotiated and contracted for with client in advance. Fixed fee-based clients are billed either on a monthly or quarterly basis in advance, depending on the client circumstances. The amount billed is determined by estimating the duration of the planning engagement in months or quarters as appropriate, and dividing that time estimate into the negotiated fee.

For each of the Advisor's services described above, the Client may terminate these services within five business days of the effective date of an Agreement signed with the Advisor without any payment of the Advisor's fee.

All fees paid to Paragon for investment advisory services are separate and distinct from the expenses charged by mutual funds to their shareholders and the product sponsor in the case of variable insurance products. These fees and expenses are described in each fund's or variable product's prospectus. These fees will generally include a management fee and other fund expenses.

At no time will Paragon accept or maintain custody of a client's funds or securities except for authorized fee deduction. Client is responsible for all custodial and securities execution fees charged by the custodian and executing broker-dealer. The Advisors fee is separate and distinct from the custodian and execution fees.

Paragon's management and fixed fees are payable in advance. Upon termination, any fees paid in advance will be prorated to the date of termination and any excess will be refunded to client.

Neither Paragon nor its supervised persons receive compensation in the form of commissions or sales charges from the sale of securities or other investment products.

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

Paragon does not charge performance-based fees.

#### **Item 7 Types of Clients**

The Advisor will offer its services to individuals, pension and profit sharing plans, trusts, estates, or charitable organizations, corporations or other business entities.

The Advisor's cumulative minimum account requirement for opening and maintaining an account is \$1,000,000. However, based on facts and circumstances The Advisor may, at its sole discretion, accept accounts with a lower value.

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

The Advisor will utilize fundamental analysis techniques in formulating investment advice or managing assets for clients.

Fundamental analysis of businesses involves analyzing its financial statements and health, its management and competitive advantages and its competitors and markets. Fundamental analysis is performed on historical and present data but with the goal of making financial forecasts. There are several possible objectives; to conduct a company stock valuation and predict its probable price evolution; to make a projection on its business performance; to evaluate its management and make internal business decisions and to calculate its credit risk.

The investment strategies the Advisor will implement may include long-term purchases of securities held at least for one year; short-term purchases for securities sold within a year, and margin transactions.

Clients need to be aware that investing in securities involves risk of loss that clients need to be prepared to bear.

The methods of analysis and investment strategies followed by the Advisor are utilized across all of the Advisors clients, as applicable. One method of analysis or investment strategy is not more significant than the other as the Advisor is considering the client's portfolio, risk tolerance, time horizon and individual goals. However, the client should be aware that with any trading that occurs in the client account, the client will incur transaction and administrative costs.

The Advisor does not primarily recommend a particular type of security.

### **Item 9 Disciplinary Information**

Neither Paragon nor its management persons have had any legal or disciplinary events, currently or in the past.

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

Neither Paragon nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

Paragon does not currently have any relationships or arrangements that are material to its advisory business or clients with either a broker-dealer, municipal securities dealer, or government securities dealer or broker, investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund" and offshore fund, financial planner, futures commission merchant, commodity pool operator, or commodity trading advisor, banking or thrift institution, accountant or accounting firm, lawyer or law firm, pension consultant, real estate broker or dealer or sponsor of syndicator of limited partnerships.

Investment advisor representatives for Paragon are also licensed and registered as insurance agents to sell life, accident and other lines of insurance for various insurance companies. Therefore, they will be able to purchase insurance products for any client in need of such services and will receive separate, yet typical compensation in the form of commissions for the purchase of insurance products. This creates a conflict of interest. A conflict of interest exists because of the receipt of additional compensation by the investment advisor representatives. Clients are not obligated to use Paragon or its investment advisor representatives for insurance products services. However, in such instances, there is no advisory fee associated with these insurance products.

Paragon does not recommend or select other investment advisers for clients.

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

Paragon is registered with the SEC and maintains a Code of Ethics pursuant to Rule 204A-1 of the Investment Advisers Act of 1940. Paragon has adopted a Code of Ethics that sets forth the basic policies of ethical conduct for all managers, officers, and employees of the adviser. In addition, the Code of Ethics governs personal trading by each employee of Paragon deemed to be an Access Person and is intended to ensure that securities transactions effected by Access Persons of Paragon are conducted in a manner that avoids any conflict of interest between such persons and clients of the adviser or its affiliates. Paragon collects and maintains records of securities holdings and securities transactions effected by Access Persons. These records are reviewed to identify and resolve conflicts of interest. Paragon will provide a copy of the Code of Ethics to any client or prospective client upon request.

Paragon and its related persons do not recommend to clients, or buy or sell for client accounts, securities in which the firm or its related persons have a material financial interest.

Paragon and/or its investment advisor representatives may from time to time purchase or sell products that they may recommend to clients. Paragon and its investment advisor representatives have a fiduciary duty to put the interests of their clients ahead of their own. Paragon requires that its investment advisory representatives follow its basic policies and ethical standards as set forth in its Code of Ethics.

### **Item 12 Brokerage Practices**

If requested by the client, Paragon may suggest brokers or dealers to be used based on execution and custodial services offered, cost, quality of service and industry reputation. Paragon will consider factors such as commission price, speed and quality of execution, client management tools, and convenience of access for both the Advisor and client in making its suggestion.

Paragon does not receive research or other products or services other than execution from a broker-dealer or third party as a result of client securities transactions.

Paragon does not receive client referrals from any broker-dealer or third party as a result of the firm selecting or recommending that broker-dealer to clients.

Paragon recommends that all clients use a particular broker-dealer for execution and/or custodial services. The broker-dealer is recommended based on criteria such as, but not limited to, reasonableness of commissions charged to the client, tools and services made available to the client and the Advisor, and convenience of access to the account trading and reporting. The client will provide authority to Paragon to direct all transactions through that broker-dealer in the investment advisory agreement.



As an investment advisory firm, Paragon has a fiduciary duty to seek best execution for client transactions. While best execution is difficult to define and challenging to measure, there is some consensus that it does not solely mean the achievement of the best price on a given transaction. Rather, it appears to be a collective consideration of factors concerning the trade in question. Such factors include the security being traded, the price of the trade, the speed of the execution, apparent conditions in the market, and the specific needs of the client. Paragon's primary objectives when placing orders for the purchase and sale of securities for client accounts is to obtain the most favorable net results taking into account such factors as 1) price, 2) size of order, 3) difficulty of execution, 4) confidentiality and 5) skill required of the broker. Paragon may not necessarily pay the lowest commission or commission equivalent as specific transactions may involve specialized services on the part of the broker.

Paragon will allow clients to direct brokerage at the firm's sole discretion. Clients should be aware that if they direct Paragon to a particular broker-dealer for execution, Paragon may be unable to achieve most favorable execution of client transactions. Directing brokerage may cost clients more money than if Paragon were to execute transactions at the broker-dealer where it has an established relationship. The client may pay higher brokerage commissions because Paragon may not be able to aggregate orders to reduce transaction costs or the client may receive less favorable prices.

Paragon may combine orders into block trades when more than one account is participating in the trade. This blocking or bunching technique must be equitable and potentially advantageous for each such account (e.g. for the purposes of reducing brokerage commissions or obtaining a more favorable execution price). Block trading is performed when it is consistent with the duty to seek best execution and is consistent with the terms of Paragon's investment advisory agreements. Equity trades are blocked based upon fairness to client, both in the participation of their account, and in the allocation of orders for the accounts of more than one client. Allocations of all orders are performed in a timely and efficient manner. All managed accounts participating in a block execution receive the same execution price (average share price) for the securities purchased or sold in a trading day. Any portion of an order that remains unfilled at the end of a given day will be rewritten on the following day as a new order with a new daily average price to be determined at the end of the following day. Due to the low liquidity of certain securities, broker availability may be limited. Open orders are worked until they are completely filled, which may span the course of several days. If an order is filled in its entirety, securities purchased in the aggregated transaction will be allocated among the accounts participating in the trade in accordance with the allocation statement. If an order is partially filled, the securities will be allocated pro rata based on the allocation statement. Paragon may allocate trades in a different manner than indicated on the allocation statement (non-pro rata) only if all managed accounts receive fair and equitable treatment.

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

The firm reviews client accounts on a quarterly basis, or when conditions would warrant a review based on market conditions or changes in client circumstances. Evan F. Shorten, President performs these reviews. Triggering factors may include Paragon becoming aware of a change in client's investment objective, a change in market conditions, change of employment,

or a change in recommended asset allocation weightings in the account that exceed a predefined guideline.

The client is encouraged to notify the Advisor and Investment Advisor Representative if changes occur in his/her personal financial situation that might materially affect his/her investment plan.

The client will receive written statements no less than quarterly from the custodian. In addition, the client will receive other supporting reports from mutual funds, asset managers, trust companies or other custodians, insurance companies, broker-dealers and others who are involved with client accounts.

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

Paragon does not receive compensation or other economic benefit from anyone other than the client for providing investment advice or other advisory services to clients. Further, Paragon does not directly or indirectly compensate anyone who is not a supervised person of the firm for client referrals.

#### **Item 15 Custody**

Paragon does not have custody of client funds or securities except for authorized fee deductions.

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

Paragon generally has discretion over the selection and amount of securities to be bought or sold in client accounts without obtaining prior consent or approval from the client for each transaction. However, these purchases or sales may be subject to specified investment objectives, guidelines, or limitations previously set forth by the client and agreed to by Paragon.

Discretionary authority will only be provided upon full disclosure to the client. The granting of such authority will be evidenced by the client's execution of an Investment Advisory Agreement containing all applicable limitations to such authority. All discretionary trades made by Paragon will be in accordance with each client's investment objectives and goals.

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

Paragon will not vote proxies for securities held in client accounts. The client clearly keeps the authority and responsibility for the voting of these proxies. The client and Paragon agree to this by contract. Clients will receive proxy solicitations from their custodian and/or transfer agent. Clients may contact Evan F. Shorten, President, with any questions about a particular proxy solicitation.

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

Paragon does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

Paragon has discretionary authority over client accounts and is not aware of any financial condition that will likely impair its ability to meet contractual commitments to clients. If Paragon does become aware of any such financial condition, this brochure will be updated and clients will be notified.

Paragon has not been the subject of a bankruptcy petition.