

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

### Item 1 - Cover Page

# Karsten Advisors

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### **Brochure**

### **Form ADV Part 2A**

### **March 2016 Brochure**

This brochure provides information about the qualifications and business practices of Karsten Financial Services, LP, which does business as Karsten Advisors (“Karsten”). If you have any questions about the contents of this brochure, please contact us at 800-340-6743 or [info@karstenfinancial.com](mailto:info@karstenfinancial.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state authority.

Additional information about Karsten also is available on the SEC’s website at [www.AdviserInfo.sec.gov](http://www.AdviserInfo.sec.gov).

## Item 2 - Material Changes

This brochure contains material changes from the last annual update to our Brochure dated March 31, 2015. Those material changes are as follows:

1. We are now utilizing the brokerage platform available through Fidelity Institutional Wealth Services. See Item 12 – Brokerage Practices for information about our brokerage practices.
2. Marcus Walker left our firm in September 2015 and Brian O’Neil left our firm in October 2015. Jerry Jackson joined our firm in September and Jeffrey Zych joined the firm in February 2016.
3. One of our Colorado office locations moved to 801 Main Street, Suite 120, Louisville, CO 80027 in January 2016.
4. Calculation of Adviser’s annual fee for the Karsten Advisors Non-Wrap Program and services provided under this Agreement shall be based on the market value of the assets under management in each account has been updated.

This Item 2 discusses only material changes since our last annually updated brochure dated March 28, 2014. This section of the Disclosure Brochure will address only those “material changes” that have been incorporated since our last delivery or posting of this Brochure on the SEC’s public disclosure website (IAPD) at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

We may, at any time, update this Disclosure Brochure and send a copy to you with a summary of material changes, or send you only a summary of material changes that includes an offer to send you a copy of the full brochure [either by electronic means (email) or in hard copy form].

If you would like another copy of this Disclosure Brochure, please download it from the SEC website as indicated above, download it from the Karsten Advisors website at [www.karstenadvisors.com](http://www.karstenadvisors.com) or contact our President/Chief Compliance Officer, Tom Karsten at (817) 295-7400 or via email at [tom@karstenadvisors.com](mailto:tom@karstenadvisors.com).

## Item 3 - Table of Contents

Item 2 - Material Changes .....	2
Item 3 - Table of Contents.....	3
Item 4 – Advisory Services.....	4
Item 5 – Fees and Compensation .....	6
Item 6 - Performance-Based Fees and Side-By-Side Management.....	9
Item 7 - Account Requirements and Types of Clients .....	9
Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss .....	10
Item 9 – Disciplinary Information.....	12
Item 10 – Other Financial Industry Activities and Affiliations.....	12
Item 11- Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	13
Item 12 - Brokerage Practices .....	14
Item 13 - Review of Accounts.....	16
Item 14 - Client Referrals and Other Compensation.....	16
Item 15 – Custody .....	16
Item 16 - Investment Discretion.....	16
Item 17 - Voting Client Securities .....	17
Item 18 - Financial Information .....	17

## Item 4 – Advisory Services

Karsten Financial Services, LP (DBA Karsten Advisors) (“Karsten”) has been in business continuously since 2011 and provides financial planning, portfolio management and general consulting services to its clients. Portfolio management services are primarily offered through the “Karsten Advisors Wrap Program” or the “Program”, which has been designed to simplify the payment of management fees and brokerage expenses by combining them into a single charge. We also offer portfolio management services on a non-wrap fee basis in which our client pays a management fee to us and separate transaction fees to a custodian for each transaction. As of December 31, 2015, Karsten managed \$209,289,243 in assets.

In addition to our main office, located at 550 Bailey Avenue, Suite 150, Fort Worth, Texas 76107, we also operate offices located at 1800 Norwood Dr. Suite 104, Hurst, Texas 76054, 6160 S. Syracuse Way, Suite 230, Greenwood Village, Colorado 80111, and another office at 801 Main Street, Suite 120, Louisville, Colorado 80027.

Thomas A. Karsten is the principal owner of Karsten. Please see *Brochure Supplements*, Appendix A, for more information on Mr. Karsten and other individuals who formulate investment advice and have direct contact with clients, or have discretionary authority over client accounts.

### Portfolio Management

At the beginning of a client relationship, Karsten meets with the client, gathers information and performs research and analysis as needed. This process normally addresses areas such as general cash flow planning, retirement planning, and insurance analysis. The goal of this service is to assess the financial circumstances of the client in order to more effectively develop the client’s Investment Plan. Financial Planning is not typically offered as a stand-alone service or for a separate fee, but is typically provided in conjunction with the management of the portfolio. Based on this work, Karsten generally develops with each client:

- a financial outline for the client based on the client’s financial circumstances and goals, and the client’s risk tolerance level (the “Financial Profile” or “Profile”); and
- the client’s investment objectives and guidelines (the “Investment Plan” or “Plan”).

The Financial Profile is a reflection of the client’s current financial picture and a look to the future goals of the client. The Investment Plan outlines the types of investments Karsten will make on behalf of the client in order to meet those goals. The Profile and the Plan are discussed regularly with each client, but are not necessarily written documents.

The Investment Plan will be updated from time to time when requested by the client or when determined to be necessary or advisable by Karsten based on updates to the client’s financial or other circumstances.

To implement the client’s Investment Plan, Karsten will manage the client’s investment portfolio on a discretionary basis. This means that clients grant Karsten the authority to supervise and direct investments in the portfolio without prior consultation with the client.

Notwithstanding the foregoing, clients may impose certain written restrictions on Karsten’s management of their investment portfolios, such as prohibiting the inclusion of certain types of investments or prohibiting the sale of certain investments held in the account at the commencement of the relationship.

Each client should note, however, that restrictions imposed by a client may adversely affect the composition and performance of the client's investment portfolio. Each client should also note that his or her investment portfolio is treated individually and tailored to the individual needs of each client by giving consideration to each purchase or sale for the client's account. For these and other reasons, performance of client investment portfolios within the same investment objectives, goals and/or risk tolerance may differ and clients should not expect that the composition or performance of their investment portfolios would necessarily be consistent with similar clients of Karsten.

For certain qualified clients, Karsten may recommend participation in a pooled investment vehicle sponsored by Crystal Capital International Fund SPC, Crystal Capital Fund Series, LLC, and Crystal Capital Strategies Fund, LLC (hereinafter "Crystal Funds" or "Crystal"). This is discussed in Item 5 below.

Under our wrap fee program Karsten Receives a portion of the Wrap Fee for our services, while a portion is used to pay transaction charges to a broker-dealer for trades we place on client's behalf. This program is more fully described in Appendix 1 to Part 2A, the Wrap Fee Program Brochure. Some of Karsten's client's portfolios are managed on a non-wrap fee basis. In general our management methods and philosophy are the same for non-wrap and wrap accounts. Because the amount of fees we receive are different for wrap and non-wrap accounts, there is a potential conflict of interest that arises if we recommend one type of account versus the other. We manage this conflict by periodically assessing the overall reasonableness of that recommendation in light of the overall charges to the client.

## Portfolio Manager Selection and Evaluation

The Karsten Advisors Wrap Program was designed to simplify for clients the payment of management fees and brokerage expenses. Karsten is the primary Portfolio Manager for the Program. However, when appropriate in light of the Investment Plan for a particular client, Karsten may recommend that the Client invest in a pooled investment vehicle, also sometimes known as a "private fund" or "hedge fund," offered by Crystal Funds. Crystal offers two programs that allow high -net-worth investors to create individualized portfolios by choosing from among several strategies preselected and managed by Crystal. There are several layers of fees paid by Karsten clients for this investment, including management fees paid to Karsten. See Item 5 for more information.

## General Consulting

In addition to the foregoing services, Karsten may provide general consulting services to clients. These services are generally provided on a project basis, and may include, without limitation, cash flow planning for certain events such as education expenses or retirement, estate planning analysis, income tax planning analysis, review of a client's insurance portfolio, as well as other matters specific to the client as and when requested by the client and agreed to by Karsten. The scope and fees for consulting services will be negotiated with each client at the time of engagement for the applicable project.

## Item 5 – Fees and Compensation

### General Fee Information

Fees paid by clients to participate in the Karsten Advisors Wrap Fee Program include transaction-based charges (e.g., commissions, ticket charges, etc.), as well as the management fee paid to Karsten. Clients who do not participate in the Wrap Fee Program will pay the custodian separately for such transaction-based charges also known as the “non-wrap fee program.” The standard rate schedules for the Wrap Fee and Non-Wrap Fee programs are set forth below.

For certain investments, either customer or issuer may impose early redemption charges. If there is an early redemption charge on a sell to cover client requested withdrawals or termination, this will be passed to the client.

In both the Wrap Fee and Non -Wrap Fee programs, fees paid to Karsten are exclusive of and distinct from the fees and expenses charged by mutual funds, ETFs (exchange traded funds) or other investment pools to their shareholders (generally including a management fee and fund expenses, as described in each fund’s prospectus or offering materials). Clients will pay certain charges to custodians in addition to the charges of the Karsten Advisors Wrap Program, as described below. The client should review all fees charged by funds, the custodians, Karsten and others to fully understand the total amount of fees paid by the client for investment and financial-related services.

Clients participating in the Karsten Advisors Wrap Program may pay higher or lower fees than clients purchasing such services separately, depending on the cost of services if provided separately and the level of trading in a particular client’s account. Karsten Advisors Wrap Program fees which Karsten does not pay to third parties in connection with transaction and execution expenses are retained by Karsten. Because of this, Karsten may have a disincentive to trade securities in client accounts. This may create a conflict of interest in determining what type of program (i.e. Wrap or Non-Wrap) Karsten recommends. This conflict of interest is managed through our suitability review process.

### Non-Wrap Program Fees

Karsten’s annual fee for investment management services provided under the non-wrap shall be based on the market value of the assets under management in each account and be calculated as follows:

\$0 - \$100,000	2.50%
\$100,001 - \$500,000	1.50%
\$500,001 - \$1,000,000	1.25%
\$1,000,001 - \$2,500,000	1.00%
\$2,500,001 and above	0.75%

Negotiated fees less than those amounts may be agreed upon in certain situations.

There is a minimum quarterly fee of \$750 or \$3,000 annually. The fees for the first quarter of the non-wrap accounts are based on the end of the first quarter balance multiplied by the appropriate percentage and divided by four. This amount is then prorated from the date this agreement is signed to the end of the current quarter. This amount is subject to the minimum quarterly fee of \$750 which would be prorated from the date the client’s agreement is signed to the end of the quarter.

Generally, in our non-wrap fee program, our clients pay transaction charges separately to the Custodian

(broker-dealer). These charges are in addition to Karsten's management fee.

The above fees are charged quarterly in advance and are calculated based on the value of the managed assets on the last day of the prior quarter. Fees may be negotiable at the discretion of Karsten; therefore a client could pay more or less than this fee schedule indicates. The specific fee schedule for each client is enumerated in the client agreement. If management begins after the start of a quarter, management fees will be prorated accordingly. Fees are normally debited directly from client account(s), unless other arrangements are made, in which case Karsten invoices clients for the fee at the beginning of each quarter based on value of the managed assets on the last day of the prior quarter.

In some cases, at Karsten's discretion, account termination fees may be absorbed by Karsten when accounts are being transitioned from another firm. In the absence of an agreement to that effect, however, Clients must pay any costs associated with terminating a prior account or liquidating any assets therein. Clients may incur additional charges for other account services provided that are not directly related to the execution and clearing of transactions, including, but not limited to, IRA custodial fees, safekeeping fees, interest charges on margin loans, and fees for transfers of securities.

Either Karsten or the client may terminate their Investment Management Agreement at any time, subject to any written notice requirements in the agreement. In the event of termination, any paid but unearned fees will be promptly refunded to the client based on the number of days that the account was managed, and any fees due to Karsten from the client will be deducted from the client's account prior to termination, or invoiced if applicable. If the client terminates the agreement within the first quarter of the contract, the fee will be the high of \$550 or the market value of your portfolio at date of termination times the agreed upon percentage fee divided by four. Please note the fee we receive if termination occurs during the first quarter is not prorated.

### **Crystal Capital Program Fees**

Through a relationship with Crystal Capital Partners, LLC ("Crystal") we are able to provide our qualified clients with customized hedge fund portfolios. Crystal specializes in building customized hedge fund portfolios that help complement the existing holdings of client investments. Through Crystal-sponsored funds, we will have access to hedge fund managers, detailed analytics, reporting and comprehensive due diligence typically available to large institutions. Most customized accounts will be invested with investment managers or investment funds through a series fund organized by Crystal. The investment managers and investment funds that we may recommend will be selected from a list that has been developed by Crystal, based on its quantitative and qualitative research of the managers and funds. After a client approves a customized portfolio the client will invest in a series or portfolio of Crystal Capital Fund Series, LLC or the "Crystal Fund," that is managed by Crystal. The Crystal Funds are private investment funds that have several segregated portfolios. Each portfolio is a separate pool of assets constituting a separate fund with its own investment objectives and policies.

A client investing in a Crystal Fund, will pay higher aggregate fees as a percentage of his or her investment than under Karsten's other programs. This is due to multiple levels of fees and expenses inherent in the structure of the funds. The total fees paid to third-party funds in which the hedge fund invests may be up to 3% of the amount invested. In addition, fees paid to Crystal may total up to an additional 2% of the amount invested. If the specific hedge fund manager achieves a positive performance, that manager may receive a performance-based fee of 10% to 25% of a fund's net profits. Each client who is a prospective investor in a Crystal Fund should carefully review the Private Placement Memorandum of the fund prior to investing.

Assets invested in Crystal funds will be excluded from the calculations of the fees described in the Non-Wrap program fees section above. However, the Crystal fund holding the client's investment will pay Karsten fees based on those assets in an amount not exceeding the schedule set forth above.

## General Consulting Fees

When Karsten provides general consulting services to clients, these services are generally separate from Karsten's financial planning and portfolio management services. Fees for general consulting are negotiated at the time of the engagement for such services, and are normally based on an hourly rate of \$250.

## Other Compensation

Thomas Karsten, Jeffrey Paladini, Jerry Jackson, and Jeffrey Zych (collectively "the IARs") of Karsten, as well as one other Karsten associate, Michael Harano are also registered representatives of Triad Advisors, Inc. ("Triad"), a FINRA/MSRB/SIPC member, and registered broker-dealer. As such, they are or may be entitled to receive a portion of the commissions or other remuneration on the sale of investment products paid by our clients to Triad. This creates a conflict of interest in that Karsten and its IAR's have an incentive to sell our clients investment products that will pay commissions on other forms of transaction-based compensation. Karsten addresses this conflict of interest by conducting periodic suitability reviews on our clients' portfolios and by disclosing this conflict to our clients through this Brochure. To further assure that our clients' interests are protected, Karsten's policy is to fully disclose all forms of compensation before any such transaction is executed.

Generally, clients will not pay both a commission to Triad (and indirectly to one of our IARs) and also pay an advisory fee to Karsten on the same assets. There are certain circumstances, however, in which a client will pay a commission or other selling compensation to Triad and also pay Karsten asset-based fees on the same security. These circumstances are:

(1) Triad and/or your investment adviser representative may have received commissions or other compensation on certain investments now subject to Karsten's advisory services fee if the client purchased the investment through one of the IARs in their capacity as a registered representative of a broker-dealer before the client became a Karsten advisory client (that is, prior to signing the Karsten Investment Advisory Agreement). Any such commissions or compensation would have been disclosed on the confirmation sent by the broker-dealer at that time of purchase.

(2) Your investment adviser representative may recommend that clients participate in certain initial public offering ("IPO") and secondary offering ("follow-on offering") opportunities. Karsten IARs make these opportunities available in their capacity as representatives of Triad Advisors, Inc. See Item 10, Other Financial Industry Activities and Affiliations. An affiliate of Triad, Ladenburg Thalmann & Co., Inc., may act as an underwriter or manager of these offerings. Triad, as a member of the selling syndicate, may receive sales compensation for the above referenced security. Usually this compensation is in the form of a "gross spread" (the difference between the price the client pays for the security and the price at which the security was purchased). Triad generally shares this compensation with your Karsten IAR. When a client purchases a security in an IPO or follow-on offering in an IRA or tax-qualified account, Karsten's regular asset-based fee for that security will be waived for two billing cycles. Beginning with the third billing date after settlement of the purchase of the security, if the position is still held by the client in an IRA account, Karsten will bill on the asset on and after that date. In a non-qualified account, Karsten will charge its regular asset-based management fee for that security.

(3) Your investment adviser recommends that you purchase a security other than an IPO or follow-on offering. In such a situation, your IAR will receive a commission.

When a Client purchases a non-traded alternative investment such as a Real Estate Investment Trust, Business Development Company, or private placement, Karsten will waive its advisory fee for a period of eighteen (18) months after the close of the offering.



A conflict of interest exists to the extent that, with respect to assets it manages for clients, Karsten recommends the purchase of IPO or other securities, including the aforementioned alternative investments. This conflict exists because Triad Advisors, Inc. and the IAR receive selling compensation in connection with these transactions. This compensation is disclosed in the offering prospectuses, supplemental prospectus, confirmations and/or separate disclosures for such transactions. Karsten IAR's will not invest client assets in IPO follow-on offerings, or alternative opportunities without consent from its clients (i.e., the IAR's will not exercise their discretion to purchase IPOs).

A conflict of interest also exists because the advisory fee you pay to Karsten is not reduced to offset the selling compensation received by Triad and the Karsten IAR, except temporarily as described above in the case of (1) IRA or other tax-qualified accounts and (2) alternative investments. Thus your IAR earns more compensation in connection with these types of trades than in connection with other types of trades.

Certain Karsten employees are also licensed insurance agents with various insurance companies, including IPA Group Insurance Planners & Advisors Group, Davis Life Brokerage, and Ash Brokerage, none of which are affiliated with Karsten. In such capacity, may recommend, on a fully disclosed commission basis, the purchase of certain insurance products. Karsten employees, in their individual capacities as licensed insurance agents, may sell insurance products to its investment advisory clients. A conflict of interest exists to the extent that Karsten recommends the purchase of insurance products where employees receive insurance commissions or other additional compensation.

Clients always have the option of purchasing securities Karsten recommends through brokers other than those with whom our representatives are associated or with which we have custodial relationships.

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

Karsten does not currently have any performance-based fee arrangements but does anticipate that they will use performance based fees in the future. "Side by Side Management" refers to a situation in which the same firm manages accounts that are billed based on a percentage of assets under management and at the same time manages other accounts for which fees are assessed on a performance fee basis. Because Karsten currently has no performance-based fee accounts, it currently has no side-by-side management.

However, Karsten recommends that certain clients invest in the Crystal Capital funds, as described in Items 4 and 5 above. The hedge fund managers of the Crystal Capital funds may charge performance-based fees of up to 25% of the net profits of such funds. The possibility of receiving performance-based compensation may encourage a fund manager to engage in riskier or more speculative decision-making. Please refer to the Private Placement Memorandum and separate Brochure of Crystal Capital for more information.

## Item 7 - Account Requirements and Types of Clients

Karsten's investment management programs are generally offered to individuals, trusts, estates, investment companies, pension and profit sharing plans, corporations and banks or thrift institutions. Presently Karsten advises only individuals, trusts, estates, corporations and charitable organizations. Karsten does not generally impose a minimum portfolio value eligible for conventional investment advisory services. We also do not charge a minimum fee for wrap accounts, but do charge a minimum annual fee of \$3,000 for non-wrap accounts. This minimum fee may equate to a high percentage of the value of smaller accounts, and owners of small accounts should

be aware that advisory services can be obtained less expensively through other providers.

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

### Methods of Analysis

In accordance with the Investment Plan, Karsten will primarily invest in mutual funds, ETF's, individual bonds, individual stocks, REIT's, Business Development Companies, private placements and options for client accounts. From time to time alternative investments may also be used.

Mutual funds and ETFs are generally evaluated and selected based on a variety of factors, including, without limitation, past performance, fee structure, portfolio manager, fund sponsor, overall ratings for safety and returns, and other factors.

Fixed income investments may be used as a strategic investment, as an instrument to fulfill liquidity or income needs in a portfolio, or to add a component of capital preservation. Karsten may evaluate and select individual bonds or bond funds based on a number of factors including, without limitation, rating, yield and duration.

Clients may hold one or more legacy positions in accounts at the time Karsten is retained to manage the portfolio. Because this often creates a concentrated equity position in the portfolio, usually for tax reasons these positions may be held in the portfolio for some time. Karsten may monitor these positions and may help the client to reduce the position over time, depending on the specific arrangements made by the client. From time to time Karsten may select individual stocks for client accounts outside of the Morningstar program, described earlier, although this is not a widespread practice in the firm. When selecting individual stocks, Karsten will generally focus on fundamental analysis, which involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product lines, the experience and expertise of the company's management, and the outlook for the company's industry.

### Investment Strategies

Karsten's strategic approach is to invest each portfolio in accordance with the Plan that has been developed specifically for each client. This means that the following strategies may be used in varying combinations over time for a given client, depending upon the client's individual circumstances.

Long Term Purchases – securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.

Short Term Purchases – securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short term price fluctuations.

Margin Transactions – a securities transaction in which an investor borrows money to purchase a security, in which case the security serves as collateral on the loan.

Trading – generally considered holding a security for less than thirty (30) days.

Options Trading/Writing: a securities transaction that involves buying or selling (writing) an option. If you write an option, and the buyer exercises the option, you are obligated to purchase or deliver a specified number of shares at a specified price at the exercise of the option regardless of the market value of the security at expiration of the option. Buying an option gives you the right to purchase or sell a specified number of shares at a specified price until the date of expiration of the option.

regardless of the market value of the security at expiration of the option.

## Risk of Loss

Karsten seeks to diversify clients' investment portfolios across various asset classes consistent with their Investment Plans. The risk of loss in any portfolio should therefore be commensurate with the client's investment objective and risk tolerance. All investment portfolios are subject to risks. Accordingly, there can be no assurance that client investment portfolios will be able to fully meet their investment objectives and goals, or that investments will not lose money.

Below is a description of several of the principal risks that client investment portfolios face.

*Management Risks.* While Karsten manages client investment portfolios based on Karsten's experience, research and proprietary methods, the value of client investment portfolios will change daily based on the performance of the underlying mutual funds and other securities in which they are invested. Accordingly, client investment portfolios are subject to the risk that Karsten allocates assets to asset classes that are adversely affected by unanticipated market movements, and the risk that Karsten's specific investment choices could underperform their relevant indexes.

*Risks of Investments in Mutual Funds, ETFs and Other Investment Pools.* As described above, Karsten may invest client portfolios in mutual funds, ETFs and other investment pools ("pooled investment funds"). Investments in pooled investment funds are generally less risky than investing in individual securities because of their diversified portfolios; however, these investments are still subject to risks associated with the markets in which they invest. In addition, pooled investment funds' success will be related to the skills of their particular managers and their performance in managing their funds. Pooled investment funds are also subject to risks due to regulatory restrictions applicable to registered investment companies under the Investment Company Act of 1940.

*Equity Market Risks.* Karsten will generally invest portions of client assets directly into equity investments, either individual stocks or into pooled investment funds that invest in the stock market. As noted above, while pooled investments have diversified portfolios that may make them less risky than investments in individual securities, funds that invest in stocks and other equity securities are nevertheless subject to the risks of the stock market. These risks include, without limitation, the risks that stock values will decline due to daily fluctuations in the markets, and that stock values will decline over longer periods (e.g., bear markets) due to general market declines in the stock prices for all companies, regardless of any individual security's prospects.

*Option Risks.* The purchaser of a put or call option can lose all of the cost of the option (the premium). Most options expire "out of the money," meaning the purchaser will lose his or her premium on most options purchased. Selling puts and/or calls in a particular equity does not affect the downside risk of owning that equity, as described in "Equity Market Risks," above. There are additional significant risks involved in selling uncovered or "naked" puts or calls, that is, puts or calls on securities in which you as the client do not already own an underlying position in the security.

*Risks Related to Alternative Investment Vehicles.* From time to time and as appropriate, Karsten may invest a portion of a client's portfolio in alternative vehicles. The value of client portfolios will be based in part on the value of alternative investment vehicles in which they are invested, the success of each of which will depend heavily upon the efforts of their respective Managers. When the investment objectives and strategies of a Manager are out of favor in the market or a Manager makes unsuccessful investment decisions, the alternative investment vehicles managed by the Manager may lose money. A client account may lose a substantial percentage of its value if the investment objectives and strategies of many or most of the alternative investment vehicles in which it is invested are out of favor at the same time, or many or most of the Managers make

unsuccessful investment decisions at the same time.

*Fixed Income Risks.* Karsten may invest portions of client assets directly into fixed income instruments, such as bonds and notes, or may invest in pooled investment funds that invest in bonds and notes. While investing in fixed income instruments, either directly or through pooled investment funds, is generally less volatile than investing in stock (equity) markets, fixed income investments nevertheless are subject to risks. These risks include, without limitation, interest rate risks (risks that changes in interest rates will devalue the investments), credit risks (risks of default by borrowers), or maturity risk (risks that bonds or notes will change value from the time of issuance to maturity).

*Foreign Securities Risks.* Karsten may invest portions of client assets into pooled investment funds that invest internationally. While foreign investments are important to the diversification of client investment portfolios, they carry risks that may be different from U.S. investments. For example, foreign investments may not be subject to uniform audit, financial reporting or disclosure standards, practices or requirements comparable to those found in the U.S. Foreign investments are also subject to foreign withholding taxes and the risk of adverse changes in investment or exchange control regulations. Finally, foreign investments may involve currency risk, which is the risk that the value of the foreign security will decrease due to changes in the relative value of the U.S. dollar and the security's underlying foreign currency.

## Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of Karsten or the integrity of Karsten's management. Karsten has no disciplinary events to report.

## Item 10 – Other Financial Industry Activities and Affiliations

As noted in *Item 5 - Fees and Compensation*, Thomas A. Karsten, Jeffrey C. Paladini, Jerry Jackson, and Jeffrey Zych ("IARs") of Karsten, as well as Karsten associate Michael Harano, are also registered representatives of Triad Advisors, Inc ("Triad") ., a FINRA/MSRB/SIPC member, and registered broker/dealer. Please see *Item 5 - Fees and Compensation* for more information.

Our affiliation with Triad creates a conflict of interest in that Karsten and its IAR's and any other registered representatives have an incentive to sell our clients investment products that will pay commissions. Karsten addresses this conflict of interest by conducting periodic suitability reviews on our clients' portfolios and by disclosing this conflict to our clients through this Brochure. To further assure that our clients' interests are protected, Karsten's policy is to fully disclose all forms of compensation before any such transaction is executed.

Karsten also offers tax preparation and bookkeeping services. Fees for these services are separately negotiated and charged but are generally provided on an hourly basis, payable in arrears. Because increased investment activity can generate a higher need for accounting services, a conflict of interest may arise. We ameliorate these conflicts in the same ways as described in the immediately preceding paragraph.

Certain Karsten employees are also licensed insurance agents with various insurance companies, and in such capacity, may recommend, on a fully disclosed commission basis, the purchase of certain insurance products. Karsten employees, in their individual capacities as licensed insurance agents, may sell insurance products to its

investment advisory clients. A conflict of interest exists to the extent that Karsten recommends the purchase of insurance products where employees receive insurance commissions or other additional compensation.

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

### Code of Ethics

Karsten has adopted a Code of Ethics (“the Code”), the full text of which is available to you upon request. Karsten’s Code has several goals. First, the Code is designed to assist Karsten in complying with applicable laws and regulations governing its investment advisory business. Under the Investment Advisers Act of 1940, Karsten owes fiduciary duties to its clients. Pursuant to these fiduciary duties, the Code requires Karsten associated persons to act with honesty, good faith and fair dealing in working with clients. In addition, the Code prohibits associated persons from trading or otherwise acting on insider information.

Next, the Code sets forth guidelines for professional standards for Karsten’s associated persons (managers, officers and employees). Under the Code’s Professional Standards, Karsten expects its associated persons to put the interests of its clients first, ahead of personal interests. In this regard, Karsten associated persons are not to take inappropriate advantage of their positions in relation to Karsten clients.

Third, the Code sets forth policies and procedures to monitor and review the personal trading activities of associated persons. From time to time Karsten’s associated persons may invest in the same securities recommended to clients. Under its Code, Karsten has adopted procedures designed to reduce or eliminate conflicts of interest that this could potentially cause. The Code’s personal trading policies include procedures for limitations on personal securities transactions of associated persons, reporting and review of such trading and pre-clearance of certain types of personal trading activities. These policies are designed to discourage and prohibit personal trading that would disadvantage clients. The Code also provides for disciplinary action as appropriate for violations.

### Participation or Interest in Client Transactions

Karsten does not buy from or sell to clients securities for Karsten’s own account. Karsten’s IARs receive selling compensation for certain IPO and follow-on offerings that may be sold from the account of an affiliate of Triad. The conflicts of interests that relate to such transactions and how we manage such conflicts are described in Item 5 – Fees and Compensation.

As outlined above, Karsten has adopted procedures to protect client interests when its associated persons invest in the same securities as those selected for or recommended to clients. However, in the event of other identified potential trading conflicts of interest, Karsten Investment’s goal is to place client interests first.

Consistent with the foregoing, Karsten maintains policies regarding participation in initial public offerings (IPOs) and private placements in order to comply with applicable laws and avoid conflicts with client transactions. If a Karsten associated person wishes to participate in an IPO or invest in a private placement, he or she must submit a pre-clearance request and obtain the approval of the Chief Compliance Officer. If associated persons trade with client accounts (e.g., in a bundled or aggregated trade), and the trade is not filled in its entirety, the associated person’s order will be filled pro rata with those of the clients.

## Personal Trading

Karsten prohibits its associated persons from engaging in trading of securities based on insider information, and requires any such information to be reported to Karsten's Chief Compliance Officer. Additionally, Karsten prohibits its associated persons from engaging in transactions that may benefit that person at the expense of Karsten's clients. To enforce this rule, Karsten requires persons with access to customer trading information to report their own personal and household holdings and transactions to the Chief Compliance Officer on a regular basis.

All such persons must also seek and obtain approval by the CCO before directly or indirectly acquiring any Beneficial Ownership in any security in an Initial Public Offering or in a Limited Offering.

## Item 12 - Brokerage Practices

### Best Execution and Benefits of Brokerage Selection

In recommending the brokerage firm that will execute orders in client accounts, Karsten seeks "best execution" for client trades, which is a combination of a number of factors, including, without limitation, quality of execution, services provided and commission rates. Therefore, Karsten may use or recommend the use of brokers who do not charge the lowest available commission in the recognition of research and securities transaction services, or quality of execution. Research services received with transactions may include proprietary or third party research (or any combination), and may be used in servicing any or all of Karsten's clients. Therefore, research services received may not be used for the account for which the particular transaction was effected.

Karsten participates in the advisory platforms of Pershing Advisor Solutions, TD Ameritrade, Fidelity Institutional Wealth Services, and Schwab Advisor Services, (together the "Brokers"). While there is no direct link between the investment advice Karsten provides and participation in the programs, Karsten receives certain economic benefits from the programs. These benefits include software and other technology that provides access to client account data (such as trade confirmations and account statements), facilitates trade execution (and allocation of aggregated orders for multiple client accounts), provides research, pricing information and other market data, facilitates the payment of Karsten's fees from its clients' accounts, and assists with back-office functions, recordkeeping and client reporting. Many of these services may be used to service all or a substantial number of Karsten's accounts, including accounts not held at the Brokers. The Brokers may also make available to Karsten other services intended to help Karsten manage and further develop its business. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. The Brokers may discount or waive fees it would otherwise charge for some of these services, pay all or a part of the fees of a third-party providing these services to Karsten, and/or the Brokers may pay for travel expenses relating to participation in such training. Finally, participation in the programs provides Karsten with access to mutual funds which normally require significantly higher minimum initial investments or are normally available only to institutional investors.

These services are not necessarily soft dollar arrangements, but are part of the institutional platform offered by the Brokers and unavailable to the public generally. Consequently, we consider the value of these services in determining whether the selected Broker provides the best execution for client's accounts.

The benefits received through participation in the programs do not depend upon the proportion of transactions

directed to the broker. The benefits are received by Karsten, in part because of commission revenue generated for the brokers by Karsten's clients. This means that the investment activity in client accounts is beneficial to Karsten, because the Brokers do not assess a fee to Karsten for these services. This creates an incentive for Karsten to continue to recommend the Brokers to its clients. While it may be possible to obtain similar custodial, execution and other services elsewhere at a lower cost, Karsten conducts best execution reviews to monitor and assure that any broker it recommends, including those from which the above-described benefits are obtained, are providing best execution to Karsten's clients.

The receipt of these benefits creates a conflict of interest, in that Karsten may have an incentive to refer clients to a particular custodian because of the receipt of benefits by Karsten clients. Karsten addresses these conflicts of interest by engaging in best execution review as part of determining which custodians it will recommend to clients and by periodically reviewing client's accounts to make sure that the custodian selected provides the best service for the client's particular needs.

## Aggregated Trade Policy

Karsten may enter trades as a block where possible and when advantageous to clients whose accounts have a need to buy or sell shares of the same security. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts, so long as transaction costs are shared equally and on a pro-rata basis between all accounts included in any such block. Block trading allows Karsten to execute equity trades in a timelier, equitable manner, and may reduce overall costs to clients.

Karsten will only aggregate transactions when it believes that aggregation is consistent with its duty to seek best execution (which includes the duty to seek best price) for its clients, and is consistent with the terms of Karsten's Investment Advisory Agreement with each client for which trades are being aggregated. No advisory client will be favored over any other client; each client that participates in an aggregated order will participate at the average share price for all Karsten's transactions in a given security on a given business day, with transaction costs generally shared pro-rata based on each client's participation in the transaction. On occasion, owing to the size of a particular account's pro rata share of an order or other factors, the commission or transaction fee charged could be above or below a breakpoint in a pre-determined commission or fee schedule set by the executing broker, and therefore transaction charges may vary slightly among accounts. Accounts may be excluded from a block due to tax considerations, client direction or other factors making the account's participation ineligible or impractical.

Karsten will prepare, before entering an aggregated order, a written statement ("Allocation Statement") specifying the participating client accounts and how it intends to allocate the order among those clients. If the aggregated order is filled in its entirety, it will be allocated among clients in accordance with the Allocation Statement. If the order is partially filled, it will generally be allocated pro-rata, based on the Allocation Statement. Notwithstanding the foregoing, the order may be allocated on a basis different from that specified in the Allocation Statement if all client accounts receive fair and equitable treatment, and the reason for different allocation is explained in writing and is approved by an appropriate individual/officer of Karsten. Karsten's books and records will separately reflect, for each client account included in a block trade, the securities held by and bought and sold for that account. Funds and securities of clients whose orders are aggregated will be deposited with one or more banks or broker-dealers, and neither the clients' cash nor their securities will be held collectively any longer than is necessary to settle the transaction on a delivery versus payment basis; cash or securities held collectively for clients will be delivered out to the custodian bank or broker-dealer as soon as practicable following the settlement, and Karsten will receive no additional compensation or remuneration of any kind as a result of the proposed aggregation.

## Item 13 - Review of Accounts

Managed portfolios are reviewed at least quarterly, but may be reviewed more often if requested by the client, upon receipt of information material to the management of the portfolio, or at any time such review is deemed necessary or advisable by Karsten. Thomas A. Karsten, President, as well as Jeffrey C. Paladini, Jerry Jackson, and Jeffrey Zych, Investment Advisory Representatives of Karsten Advisors, all review accounts.

Account custodians are responsible for providing monthly or quarterly account statements which reflect the positions (and current pricing) in each account as well as transactions in each account, including fees paid from an account. Account custodians also provide prompt confirmation of all trading activity, and year-end tax statements, such as 1099 forms. Additional reports are available at the request of the client.

## Item 14 - Client Referrals and Other Compensation

As noted above, Karsten may receive some benefits from the Brokers based on the amount of client assets held at the Brokers. Refer to the description of the conflicts of interest created by the payments received from custodians, discussed in Item 12. However, neither the Brokers nor any other party is paid to refer clients to Karsten.

## Item 15 – Custody

Karsten does not take custody of client funds or securities, except to the limited extent that Karsten is authorized by our Clients, in writing, to deduct our fees directly from Clients' accounts.

The Brokers referred to herein are the custodian of nearly all client accounts at Karsten. From time to time however, clients may select an alternate broker to hold accounts in custody. In any case, it is the custodian's responsibility to provide clients with confirmations of trading activity, tax forms and at least quarterly account statements. Clients are advised to review this information carefully, and to notify Karsten of any questions or concerns. Clients are also asked to promptly notify Karsten if the custodian fails to provide statements on each account held.

From time to time and in accordance with Karsten's agreement with clients, Karsten will provide additional reports. The account balances reflected on these reports should be compared to the balances shown on the brokerage statements to ensure accuracy. At times there may be small differences due to the timing of dividend reporting, pending trades and other similar issues.

## Item 16 - Investment Discretion

As described above under **Item 4 – Advisory Services** Karsten manages portfolios on a discretionary basis. This means that after an Investment Plan is developed for the client's investment portfolio, Karsten will execute that plan without specific consent from the client for each transaction. For discretionary accounts, a Wrap Fee Client Agreement (Discretionary) ("Agreement") is executed by the client, giving Karsten the authority to invest and reinvest clients' assets. Karsten then directs investment of the client's portfolio using its discretionary authority. The discretionary relationship is further described in the Agreement.



## Item 17 - Voting Client Securities

As a policy and in accordance with Karsten's client agreement, Karsten does not vote proxies related to securities held in client accounts. The custodian of the account will normally provide proxy materials directly to the client. Clients may contact Karsten with questions relating to proxy procedures and proposals; however, Karsten generally does not research particular proxy proposals.

## Item 18 - Financial Information

Karsten does not require nor solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, and therefore has no disclosure with respect to this Item.



As required by securities regulations, below is the contact information for the custodian(s) we may use for your account(s). Funds and securities are held in street name.

**Pershing Advisors Solutions (Pershing LLC.)**

One Pershing Plaza  
4<sup>th</sup> floor  
Jersey City, NJ 07399  
(877) 870-7230

**Charles Schwab (Charles Schwab & Co., Inc.)**

2423 East Lincoln Drive. Phoenix,  
AZ 85016-1215  
(877) 738-6813

**TD Ameritrade Institutional**

5010 Wateridge Vista Drive San  
Diego, CA 92121-5775  
(800) 431-3500

**Fidelity Institutional Wealth Services**

245 Summer Street  
Boston, MA 02210-1129  
(800) 523-1203

550 Bailey Ave. Suite 150 • Fort Worth Texas 76107

Phone 817-295-7400 • Toll Free 800-340-6743 • Fax 817-295 -7488 • [www.karstenadvisors.com](http://www.karstenadvisors.com) Advisory  
Services offered through Karsten Advisors, a SEC Registered Investment Advisor.

Securities offered through Triad Advisors Member FINRA/SIPC. Karsten Advisors is not affiliated with Triad Advisors.

## **Notification of Privacy Policy**

At Karsten Financial Services, protecting your privacy is very important to us. As a financial services firm, we collect and use nonpublic personal information (NPI) in order to provide our clients (prospective, current, or former) with a broad range of financial services as effectively and conveniently as possible. We are providing this notification to inform you of the types of NPI we collect, our privacy safeguards and sharing practices. We handle all NPI in accordance with this policy.

### **WHAT IS NPI? WHAT TYPES OF NPI DOES KARSTEN FINANCIAL SERVICES COLLECT AND FROM WHOM DO WE COLLECT IT?**

Nonpublic personal information (NPI) is confidential personal information about you that we obtain in connection with providing financial services or products to you. We generally collect nonpublic personal information about you from the following sources:

Information we receive from you on applications or other forms (e.g., name, address, income, etc); Information about your transactions with us, our service providers, or other parties to transactions; and Information we may receive about you from unaffiliated financial service providers (e.g. custodians, insurance agents, attorneys, and consumer reporting agencies).

### **HOW IS YOUR NPI UTILIZED?**

We do not disclose any nonpublic personal information (NPI) about you without your express consent, except as permitted and required by law. We restrict access and sharing of your nonpublic personal information to (1) employees of our firm, (2) unaffiliated service providers such as account custodians (i.e., broker-dealers, banks, and mutual fund companies), (3) Triad Advisors, Inc., the broker-dealer with which our investment adviser representatives are also associated as registered representatives; (4) account aggregation services chosen by mutual agreement, and (5) others who need to know such information in order to provide products or services to you. We will also receive nonpublic personal information from some or all of the entities listed above. Disclosure of nonpublic personal information to such parties is unrestricted and facilitated by your agreement and consent.

### **HOW DO WE PROTECT YOUR PERSONAL INFORMATION?**

We maintain physical, electronic, and procedural safeguards to protect your nonpublic personal information. Our safeguards include measures to protect your information prior to, during and upon termination of our financial services engagement (i.e., disposal of your data).

### **DISCLOSING PERSONAL INFORMATION TO NON-AFFILIATED THIRD PARTIES**

We do not sell, share or disclose your personal information to persons or entities that are neither service providers nor affiliates. We will not share or disclose such information to non-affiliated third-party marketing companies.

### **FUTURE POLICY REVISIONS**

This policy may change to reflect updates in our practices, procedures, or regulatory requirements concerning the collection and use of NPI. As our client, you will receive notifications at least annually and our revisions or changes to this policy will be highlighted in our annual notifications. If you have any questions regarding our privacy policy, please do not hesitate to contact your investment advisor representative or you may write to, email, or call us at:

**Karsten Financial Services, LP**  
550 Bailey Avenue, Suite 150  
Fort Worth, Texas 76107

**Website:** [www.karstenadvisors.com](http://www.karstenadvisors.com)  
**Phone:** 817-295-7400 | **Fax:** 817-295-7488  
**Email:** [Tom@Karstenfinancial.com](mailto:Tom@Karstenfinancial.com)  
**Firm Contact:** Thomas Karsten

*We are providing this notification to you in accordance with Federal and State regulations.*

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Phone 817-295-7400 • Toll Free 800-340-6743 • Fax 817-295-7488 • [www.karstenadvisors.com](http://www.karstenadvisors.com)

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