

Harbor Financial Services, LLC
(Wrap Fee Program Brochure)
March 30, 2016

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This wrap fee program brochure provides information about the qualifications and business practices of Harbor Financial Services, LLC. If you have any questions about the contents of this Brochure, please contact us at 888-397-7358

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.

Harbor Financial Services, LLC is a Registered Investment Adviser with the Securities and Exchange Commission. Our registration as an Investment Adviser does not imply any level of skill or training.

Additional information about Harbor Financial Services, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

There have been the following material changes since our last annual brochure dated March 30, 2015.

Additional Fees and Expenses – The firm has added disclosure of the following potential additional fees and expenses that may be charged by TD Ameritrade.

- brokerage and execution costs associated with money market funds and no transaction fee mutual funds,
- SEC and exchange fees,
- auction fees,
- debit balances,
- margin interest,
- prime brokerage services,
- trade away services,
- early redemption of mutual funds

Harbor Managed Account fees may now range up to 2.75% per annum. This fee is determined between you and your investment advisor representative.

Harbor Managed Account – Sector Rotation Strategy account minimum is now \$50,000, although smaller accounts may be accepted based upon the specific circumstances of an account.

Methods of Analysis – The firm has added the following method of analysis.

- **Model Portfolios** – From time to time, we may purchase research, purchase and sale recommendations, and/or model portfolios from third parties. These recommended portfolios do not constitute investment advice from the third party, and it is at Harbor's discretion whether to follow these recommendations and/or recommend them to you on a non-discretionary basis. If we recommend use of such third party research, we may provide additional disclosure (fact sheets) about the research, strategy, or model portfolio. At present the firm uses Wilbanks, Smith, and Thomas Asset Manager as a third party research provider, however this is subject to change.

Pursuant to new SEC 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. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. We may, at any time, update this Brochure and either send you a copy or offer to send you a copy (either by electronic means (internet/email) or in hard copy form).

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Item 4 – Services, Fees, and Compensation

INVESTMENT ADVISORY SERVICES

We are a registered investment adviser with our home office based in Mobile, Alabama. We are organized as a limited liability company under the laws of the State of Alabama and we have been providing investment advisory services since 2006. Marc Whitehead, Brown Corp., and Darai Corp. are the owners of the firm. We are also a registered broker dealer member of the Financial Industry Regulatory Authority Inc. (“FINRA”) and the Securities Investor Protection Corporation (“SIPC”), a municipal advisor registered with the Securities and Exchange Commission (“SEC”), a licensed insurance agency, and a municipal securities dealer registered with the Municipal Securities Rulemaking Board (“MSRB”). We provide investment advisory services to individuals, trusts, estates, charitable organizations, pension and profit sharing plans, corporations, and other business entities.

This narrative provides clients with information regarding HFS and the qualifications, business practices, and nature of advisory services that should be considered before becoming an advisory client of the Firm.

You may also find further information on the Firm’s broker-dealer operations or the registered representatives associated with HFS by entering the Firm or the representative’s name at <http://brokercheck.finra.org/>. (FINRA Broker Check).

We provide investment advice based on the particular objectives, needs and financial goals of each client. We recommend the purchase of securities which we believe are appropriate based on your individual needs and the investment restrictions imposed by you, if any.

The following paragraphs describe our fees and services. Please refer to the description of each advisory service listed below for information on how we tailor advisory services to your individual needs. Also, you may see the term Associated Person throughout this Brochure. As used in this Brochure, our Associated Persons are our firm’s officers, employees, and all individuals providing advice on behalf of our firm.

Investment Adviser Representatives (“IARs”) of our firm may also be registered representatives of the Firm, in its capacity as a broker-dealer. Investment advisory clients are offered the choice of utilizing the Firm’s Broker/Dealer and clearing firm Raymond James & Associates, Inc. or TD Ameritrade, although they are not required to and may use the broker-dealer/custodian of their choice.

PORTFOLIO MANAGEMENT SERVICES

Harbor Financial offers portfolio management services through the Harbor sponsored HARBOR MANAGED ACCOUNT and HARBOR MANAGED ACCOUNT – SECTOR ROTATION STRATEGY wrap fee programs, which are custodied at TD Ameritrade. In addition, we may also refer you to third party investment advisers to manage all or a portion of your account custodied at TD Ameritrade, Inc.

Harbor Financial additionally offers portfolio management services through the OPPORTUNITY and AMBASSADOR Account which are sponsored by and custodied with Raymond James and Associates, Inc. (“Raymond James”) and Sub-advisory portfolio management services are offered through Raymond James Consulting Services, Outside Money Manager Program, Eagle High Net Worth Program, Freedom Unified Managed Account Program, Freedom mutual fund/ETF Account Program, Russell Account Program and Russell Model Strategies Program. **You should also refer to the Raymond James Brochure/Wrap fee Program Brochure for information on any accounts/programs provided through Raymond James.**

FEES AND COMPENSATION

Our investment advisory fees, as described herein, are negotiable and may vary on a case by case and client by client basis. In certain circumstances, we may charge hourly or fixed fees in lieu of asset based fees. It is your responsibility to determine if fees charged by us are suitable for you. Our fees may be higher than other investment advisers offering similar services. The specific manner in which fees are charged by us is established in your written agreement with us. Management fees shall be prorated for each capital contribution and withdrawal made during the applicable calendar quarter (with the exception of de minimus contributions and withdrawals).

Our advisor fees under certain programs through Raymond James & Associates, Inc. do not cover any execution related expenses, commissions and margin interest, if any, securities exchange fees, or other fees required by law or charged by the broker dealer with custody of the account, but they may on accounts custodied at TD Ameritrade.

ADDITIONAL FEES AND EXPENSES

Our fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which you may be charged. You may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as:

- fees charged by managers,

- brokerage and execution costs associated with money market funds and no transaction fee mutual funds,
- SEC and exchange fees,
- auction fees,
- debit balances,
- margin interest,
- prime brokerage services,
- trade away services,
- custodial fees,
- deferred sales charges,
- early redemption of mutual funds
- odd lot differentials,
- transfer taxes,
- wire transfer and electronic fund fees; and,
- other fees and taxes on brokerage accounts and securities transactions.

If you participate in a Raymond James sponsored wrap fee program, please see the respective manager's Disclosure Document (ADV Disclosures) and/or Raymond James program disclosure document for a description of the services and for fee information.

As part of our investment advisory services to you, we may invest, or recommend that you invest, in mutual funds and exchange traded funds. The fees that you pay to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds or exchange traded funds (described in each fund's prospectus) to their shareholders. These fees will generally include a management fee and other fund expenses. You will also incur transaction charges and/or brokerage fees when purchasing or selling securities. These charges and fees are typically imposed by the broker-dealer or custodian through whom your account transactions are executed. To fully understand the total cost you will incur, you should review all the fees charged by mutual funds, exchange traded funds, our firm, and others. For information on our brokerage practices, please refer to the "Brokerage Practices" section of this Disclosure Brochure.

HARBOR MANAGED ACCOUNTS

Advisory services provided through Harbor Managed Accounts are custodied with TD Ameritrade, Inc.

We provide two types of accounts through Harbor Managed Accounts.

- HARBOR MANAGED ACCOUNT
- HARBOR MANAGED ACCOUNT – SECTOR ROTATION STRATEGY

In our standard HARBOR MANAGED ACCOUNT, we provide discretionary and non-discretionary portfolio management services where the investment advice provided is tailored to meet your individual needs and investment objectives. In our HARBOR SECTOR ROTATION STRATEGY, we have entered into an arrangement with Broadmeadow Capital where we receive trade allocation changes as much as weekly. This strategy uses a combination of exchange traded funds (“ETFs”) representing nine market sectors plus a treasury ETF.

At the inception of the relationship, we will gather information from you such as:

- your risk tolerance,
- investment objectives; and,
- other relevant information and will recommend an initial portfolio (only HARBOR MANAGED ACCOUNT) to you.

There is a minimum investment of \$25,000 (HARBOR MANAGED ACCOUNTS) and \$50,000 (HARBOR SECTOR ROTATION STRATEGY) for these accounts, although smaller accounts may be accepted based upon the specific circumstances of an account.

Harbor Managed Account fees range up to 2.75% per annum. This fee is determined between you and your investment advisor representative. The HARBOR SECTOR ROTATION STRATEGY has account fees starting at 3% per annum and reducing based on the amount of assets in the strategy.

HARBOR SECTOR ROTATION STRATEGY fee structure

| | |
|-------------------|------------|
| First \$250,000 | 3.00% |
| Next \$250,000 | 2.50% |
| Next \$500,000 | 2.00% |
| Next \$4,000,000 | 1.50% |
| Next \$5,000,000 | 1.30% |
| Over \$10,000,000 | Negotiable |

When an account is opened, the asset-based fee is billed for the remainder of the current billing period and is based on the initial contribution. Thereafter, the quarterly asset-based fee is paid in advance, based on the account asset value on the last business day of the previous calendar quarter, and becomes due the following business day. Fees will be assessed pro rata in the event your client agreement is executed at any time other than the first day of a calendar quarter.

You may terminate the client agreement by providing 30 days written notice to our firm. You will incur a pro rata charge for services rendered prior to the termination of the agreement. If you have pre-paid advisory fees that we have not yet earned, you will receive a prorated refund of those fees.

You may also incur charges for other account services provided by TD Ameritrade, not directly related to the advisory, execution and clearing services provided including, but not limited to, IRA custodial fees, safekeeping fees, interest charges on margin loans, and fees for legal or courtesy transfers of securities.

The qualified custodian holding your funds and securities will debit your account directly for the advisory fees. Where your account is debited directly for the advisory fee, you will provide written authorization permitting the fees to be paid directly from your account held by the qualified custodian. We will not have access to your funds for payment of fees without your consent in writing. Further, the qualified custodian agrees to deliver a quarterly account statement directly to you. You are encouraged to review your account statements for accuracy.

Generally, your Investment Adviser Representative provides investment advice on a non-discretionary basis. For non-discretionary accounts, we will contact the client prior to executing any transactions. For discretionary accounts, your Investment Adviser Representative may decide which securities and the amount of securities to be purchased/sold. Once the initial portfolio is constructed, your Investment Adviser Representative will monitor the account on a continuous basis and re-balance the portfolio as changes in market conditions and your circumstances require.

On occasion, in lieu of an asset based fee, our Investment Adviser Representatives may charge a negotiable fixed fee or hourly fee. Fee and fee paying arrangements will vary on a case by case and client by client basis.

SELECTION OF OTHER ADVISERS

We may refer certain clients who participate in the Harbor Managed Account to various third-party investment advisers for asset management services. After gathering information about your financial situation and investment objectives, an investment

adviser representative of our firm may assist you in selecting a particular third-party adviser/program. We utilize a number of factors in determining which third-party investment advisers to refer clients including but not limited to performance, investment objectives, fees and methods of analysis.

Third party investment advisers to which we refer our clients may not achieve the best rate of returns or charge the lowest fees in comparison to other third-party investment advisers.

Fees paid by you to third-party investment advisers are established and payable in accordance with the Form ADV Part 2A or other equivalent disclosure document provided by each third-party investment adviser to whom we refer our clients, and may or may not be negotiable.

We will include the assets managed by the third-party adviser in the calculation of our Harbor Managed Account fee as stated above and the fees charged by the third party adviser are separate and in addition to our fees.

Clients who are referred to third-party investment advisers will receive full disclosure, including services rendered and fee schedules, at the time of the referral, by delivery of a copy of the relevant third-party investment adviser's Form ADV Part 2A or equivalent disclosure document. We will review the performance of the third party investment adviser on at least a quarterly basis and make any recommendations to you, as necessary.

You will be required to sign investment advisory agreements with the third-party investment adviser of the program selected. Either party, in accordance with the provisions of those agreements, may terminate the advisory relationship.

Our investment advisory fees, as described herein, are negotiable and may vary on a case by case and client by client basis.

Equity, Balanced and ETF Disciplines:

| | |
|--------------------------|-------|
| First \$500,000 | 2.00% |
| Next \$500,000 | 1.50% |
| Next \$4,000,000 | 1.00% |
| Greater than \$5,000,000 | 0.75% |

Fixed Income Disciplines:

| | |
|--------------------------|-------|
| First \$500,000 | 1.00% |
| Next \$500,000 | 0.75% |
| Greater than \$1,000,000 | 0.50% |

In certain circumstances, we may charge hourly or fixed fees in lieu of asset based fees. It is your responsibility to determine if fees charged by us are suitable for you. Our fees may be higher than other investment advisers offering similar services.

The specific manner in which fees are charged by us is established in your written agreement with us. We will generally bill our fees on a quarterly basis, usually in advance.

You may also elect to have us to directly debit fees from your accounts. Management fees shall be prorated for each capital contribution and withdrawal made during the applicable calendar quarter (with the exception of de minimus contributions and withdrawals).

Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

Our fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which you may be charged. You may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as:

- fees charged by managers,
- brokerage and execution costs associated with money market funds and no transaction fee mutual funds,
- SEC and exchange fees,
- auction fees,
- debit balances,
- margin interest,
- prime brokerage services,
- trade away services,
- custodial fees,
- deferred sales charges,
- early redemption of mutual funds
- odd-lot differentials,
- transfer taxes,
- wire transfer and electronic fund fees; and,
- other fees and taxes on brokerage accounts and securities transactions.

Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. These fees are exclusive of and in addition to our fee, and we do not receive any portion of these fees.

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

TYPES OF INVESTMENTS

We primarily offer advice on equity securities, corporate debt securities, certificates of deposit, municipal securities, investment company securities (including mutual funds and variable annuities), exchange traded funds, US Government securities, option contracts on securities, and interest in partnerships investing in real estate, oil and gas interests and others.

Additionally, we may advise you on any type of investment that we deem appropriate based on your stated goals and objectives. We may also provide advice on any type of investment held in your portfolio at the inception of our advisory relationship.

You may request that we refrain from investing in particular securities or types of securities. You must provide these restrictions to our firm in writing.

Item 5 – Account Requirements and Types of Clients

Harbor Financial generally imposes a minimum dollar amount to participate in each of the aforementioned advisory programs. Where the total value of cash and securities in a fee-based advisory account falls below the minimum initial investment requirement, the firm reserves the right to terminate the client's advisory account participation if Harbor Financial, in its discretion, determines that the account cannot be economically or effectively managed due to the small account size. Individual account minimums applicable to the wrap programs discussed in this brochure are available in the "Services, Fees and Compensation" section. Harbor Financial does not require a minimum asset amount for financial planning or consulting services.

We offer investment advisory services to individuals, corporate pension and profit sharing plans, trusts, estates, charitable organizations, foundations, endowments, corporations and other business entities.

COMPENSATION FOR THE SALE OF SECURITIES OR OTHER INVESTMENT PRODUCTS

Our firm is also registered as a securities broker-dealer (member of the Financial Industry Regulatory Authority, Municipal Securities Rules Making Board, and the Securities Investor Protection Corporation) and persons providing investment advice on behalf of our firm are also registered representatives in our firm's capacity as a broker-dealer. Our firm and our

registered representatives will receive commission and/or transaction fee compensation in connection with the purchase and sale of securities, including 12b-1 fees for the sale of investment company products. Commissions earned from the sales of securities are separate and in addition to our advisory fees. This practice presents a conflict of interest because persons providing investment advice on behalf of our firm who are registered representatives have an incentive to effect securities transactions for the purpose of generating commissions rather than solely based on your needs. In advisory accounts, we will, when appropriate, recommend the purchase of no-load mutual funds. You are under no obligation, contractually or otherwise, to purchase securities products through any person affiliated with our firm and you have the option to purchase investment products that we recommend through other brokers or agents that are not affiliated with our firm.

Our firm also provides investment banking and underwriting services to government agencies and municipalities to assist them in issuing bonds. The firm receives compensation from the issuers of the bonds. The firm may have a direct financial interest in having clients invest in the bonds. However, you are under no obligation, contractually or otherwise, to purchase bond issues underwritten by our firm.

In addition, our firm is also licensed as an insurance agency and persons providing investment advice on behalf of our firm are also licensed as insurance agents. We will earn commission-based compensation for selling insurance products to you. Insurance commissions are separate and in addition to our advisory fees. This practice presents a conflict of interest because persons providing investment advice on behalf of our firm who are insurance agents have an incentive to recommend insurance products to you for the purpose of generating commissions rather than solely based on your needs. However, you are under no obligation, contractually or otherwise, to purchase insurance products through our firm or our insurance agents.

Any material conflicts of interest between you and our firm, or our employees are disclosed in this Disclosure Brochure. If at any time, additional material conflicts of interest develop, we will provide you with written notification of the material conflicts of interest or an updated Disclosure Brochure.

BROKERAGE PRACTICES

As an SEC registered broker-dealer, Harbor Financial is often utilized to execute portfolio transactions for clients on an introducing basis. In these cases custodial services are provided by our clearing firm, Raymond James and Associates, Inc. Additionally, Harbor may use Raymond James and Associates, Inc. for trade execution services on certain accounts. The Harbor Managed Account utilizes TD Ameritrade Institutional, a division of

TD Ameritrade, Inc. (“TD Ameritrade”) an unaffiliated SEC-registered broker-dealer and member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation for trade execution and custodial services.

TD Ameritrade offers to independent investment advisers who participate in the TD Ameritrade Institutional Program, services which include custody of securities, trade execution, clearance and settlement of transactions. We receive some benefits from TD Ameritrade (crediting of ACAT fees, paying for software systems, sponsoring compliance events, etc.). Our firm also receives revenue from money market accounts custodied at Raymond James & Associates, Inc.

While we believe that our firm, Raymond James and TD Ameritrade provide best execution. Commission rates/fees charged by these firms may be higher or lower than those charged by other broker-dealers. In determining whether our firm, Raymond James and TD Ameritrade provide best execution, we consider factors that we deem relevant, including among others:

- the value of research provided,
- reputation,
- execution capability,
- commission rates,
- responsiveness;
- the quality of service rendered.

Best execution is not measured solely by reference to commission rates. Paying a broker a higher commission rate than another broker might charge is permissible if the difference in cost is reasonably justified by the quality of the brokerage services offered.

There is no direct link between our participation in the program and the investment advice we provide to you, although we do receive economic benefits through our participation in the program that is typically not available to TD Ameritrade’s retail investors. These benefits 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 our participants;
- access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to your accounts);

- the ability to have our advisory fees deducted directly from your accounts;
- access to an electronic communications network for order entry and account information;
- access to mutual funds with no transaction fees and to certain institutional money managers; and
- discounts on compliance, marketing, research, technology, and practice management products or services provided to us by third party vendors.

TD Ameritrade may also have paid for business consulting and professional services received by our Associated Persons and may also pay or reimburse expenses (including travel, lodging, meals and entertainment) expenses for our personnel to attend conferences or meetings relating to the program or to TD Ameritrade's advisor custody and brokerage services generally. In addition, TD Ameritrade may pay for software systems to assist our firm in managing and administering your accounts.

Some of the products and services made available by TD Ameritrade through the program may benefit our firm but may not benefit your accounts. These products or services may assist us in managing and administering your accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help us manage and further develop its business enterprise.

The firm may receive compensation from brokerage commission charges for trade executions when Harbor Financial is acting as the broker-dealer. Additionally, the firm may receive compensation from the clearing firm for client assets maintained in certain money market sweep funds, monthly margin debit interest, and other client interest program balances. This compensation amount is dependent on our clients' cumulative level of assets within each of these categories. This could result in a conflict of interest to you since we would not receive this compensation if your cash or cash equivalents were held outside your advisory account.

Account assets may, from time to time, be invested in shares of unaffiliated open-end investment companies (mutual funds), provided that no front-end or deferred sales charge is payable in connection therewith. Such mutual funds may provide for the payment of certain Rule 12 (b)-1 and other asset-based charges to entities affiliated with the Firm, including Harbor Financial Services, LLC. Those payments may, where permitted under applicable regulatory requirements, provide additional compensation to Harbor Financial Services, LLC, its Clearing Firm, and its representatives. Additionally, our firm may receive certain deferred sales charges on previously purchased mutual funds transferred into the account.

The benefits received by our firm or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of our fiduciary duties to you, we endeavor at all times to put your interests first. You should be aware, however, that the receipt of economic benefits by our firm or its related persons in and of itself creates a potential conflict of interest and may indirectly influence our choice of TD Ameritrade for custody and brokerage services.

BROKERAGE FOR CLIENT REFERRALS

We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

DIRECTED BROKERAGE

Persons providing investment advice on behalf of our firm who are registered representatives will recommend our firm to you for brokerage services. These individuals are subject to applicable rules that restrict them from conducting securities transactions away from our firm unless we provide the representative with written authorization to do so. Therefore, these individuals are generally limited to conducting securities transactions through our firm or through approved custodians. It may be the case that our firm or approved custodians charge higher transactions costs and/or custodial fees than another broker charges for the same types of services. If transactions are executed through our firm as broker dealer, these individuals (in their separate capacities as registered representatives of our firm) may earn commission-based compensation as result of placing the recommended securities transactions through our firm. Please see the “Fees and Compensation” section in this Brochure for more information on the compensation received by registered representatives who are affiliated with our firm. Not all advisers require their clients to direct brokerage.

BLOCK TRADES

We may combine multiple orders for shares of the same securities purchased for advisory accounts we manage (this practice is commonly referred to as “block trading”). When block trading, we will then distribute a portion of the shares to participating accounts in a fair and equitable manner. The distribution of the shares purchased is typically proportionate to the size of the account, but it is not based on account performance or the amount or structure of management fees. Subject to our discretion regarding factual and market conditions, when we combine orders, each participating account pays an average price per share for all transactions and pays a proportionate share of all transaction costs. Accounts

owned by our firm or persons associated with our firm may participate in block trading with your accounts; however, they will not be given preferential treatment.

In the event orders are not block traded, clients may receive different prices for the same securities transactions. Furthermore, you may not be able to buy or sell the same quantity of securities and may be charged higher fees or commissions, than if transactions were aggregated.

Item 6 – Portfolio Manager Selection and Evaluation

INVESTMENT DISCRETION

Investment discretion means, "with respect to an account, the sole or shared authority (whether or not that authority is exercised) to determine what securities or other assets to purchase or sell on behalf of the account".

Those clients selecting or maintaining a non-managed account through the Harbor Managed Account programs may delegate investment discretion to their financial advisor (provided certain requirements are met).

As authorized under the Harbor Managed Account or Harbor Managed Account – Sector Rotation Agreements, Harbor Financial is not required to obtain specific client consent regarding specific securities to be bought or sold. However, the client does select a specific investment discipline or strategy and the firm buys securities for the client's account in accordance with the investment objective of the client. Per the Investment Management Agreements, the firm or the SMA Manager assumes all investment duties with respect to assets held in the account and all investment powers including sole investment authority with respect to such assets. Harbor Financial or the SMA Manager invests and reinvests the assets of account in such stocks, bonds, mutual funds or other property of any kind as it deems in the best interest of client to achieve the investment objective designated by client.

Harbor Financial may take any action or non-action as it deems appropriate, with or without further consent or authority from the client, and may exercise its discretion and deal in and with such assets exactly as fully and freely as the client might do as owner, except that Harbor Financial or the SMA Manager is not authorized to withdraw any money (other than asset-based fees payable by client), securities or other property either in the name of client or otherwise. Harbor Financial or the SMA Manager are free to sell securities in the account without regard for the length of time they have been held or the gain or loss that may be realized.

Harbor Financial or the SMA Manager are free to make investment changes without regard for the resulting rate of portfolio turn-over, when either of them, in their sole discretion, determine that such changes will promote the investment objective of the account. Clients should further understand that any securities used to fund a managed or discretionary account, or that are later deposited into the managed or discretionary account may be sold, thus creating a capital gain or loss depending on the client's costs basis in the securities. Clients should consult their tax advisor for advice on the tax implications of such transactions.

FINANCIAL ADVISOR AS DISCRETIONARY MANAGER

Harbor Managed Accounts may be managed on a discretionary basis through certain financial advisors. Harbor Financial retains the right to determine financial advisor qualifications for discretionary management.

PROXY VOTING

We will not vote proxies on behalf of your advisory accounts. At your request, we may offer you advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of common stock or mutual funds, you are responsible for exercising your right to vote as a shareholder.

In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case, we would forward any electronic solicitation to vote proxies.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

We do not accept performance-based fees or participate in side-by-side management. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees. Performance-based fees are fees that are based on a share of capital gains or capital appreciation of a client's account. Our fees are calculated as described in the *Advisory Business* section above, and are not charged on the basis of a share of capital gains upon, or capital appreciation of, the funds in your advisory account.

METHODS OF ANALYSIS AND RISK OF LOSS

We may use one or more of the following methods of analysis or investment strategies when providing investment advice to you:

- **Fundamental Analysis** – Fundamental analysis involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product line, the experience, and expertise of the company's management, and the outlook for the company's industry. The resulting data is used to measure the true value of the company's stock compared to the current market value. The risk of fundamental analysis is that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.
- **Technical Analysis** – Technical analysis involves studying past price patterns and trends in the financial markets to predict the direction of both the overall market and specific stocks. The risk of market timing based on technical analysis is that charts may not accurately predict future price movements. Current prices of securities may reflect all information known about the security and day to day changes in market prices of securities may follow random patterns and may not be predictable with any reliable degree of accuracy.
- **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. Frequent trading can negatively affect investment performance, particularly through increased brokerage and other transactional costs and taxes.
- **Short Sales** – A securities transaction in which an investor sells securities he or she borrowed in anticipation of a price decline. The investor is then required to return an equal number of shares at some point in the future. A short seller will profit if the stock goes down in price. If the stock goes too high, the short seller will have to deposit more money or cover the short by buying the stock and may ultimately have to pay for a loss out of pocket.
- **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. The risk to the investor is that if the transaction they place on margin goes against them, they will have to deposit money or securities possibly over and above the original transaction amount.
- **Option Writing/Trading** – 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 expiration 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. Selling an option exposes an investor to the full risk of price movement in the underlying security, but only offers a relatively small potential reward in the form of a cash premium.

- **Sector Rotation Strategy** – The Harbor Sector Rotation Strategy is designed to combine exposure to rising markets with risk controls for declining markets. Harbor pays a license fee to Broadmeadow Capital to provide weekly trade signals based on Broadmeadow's AlphaSector Premium Strategy model. The AlphaSector Premium Strategy model is quantitatively driven and applies a weekly trading protocol to nine major Sector ETFs. The model has the potential to be invested in any combination of the nine Sector ETFs including all nine at the same time, a combination of Sector ETFs (capped at 25% per Sector) and a Treasury ETF, or can be 100% invested in a Treasury ETF. These trade signals do not constitute investment advice from Broadmeadow, and it is at Harbor's discretion whether to follow these signals and/or recommend them to you on a non-discretionary basis.
- **Model Portfolios** – From time to time, we may purchase research, purchase and sale recommendations, and/or model portfolios from third parties. These recommended portfolios do not constitute investment advice from the third party, and it is at Harbor's discretion whether to follow these recommendations and/or recommend them to you on a non-discretionary basis. If we recommend use of such third party research, we may provide additional disclosure (fact sheets) about the research, strategy, or model portfolio. At present the firm uses Wilbanks, Smith, and Thomas Asset Manager as a third party research provider, however this is subject to change.

Our strategies and investments may have unique and significant tax implications. However, unless we specifically agree otherwise, and in writing, tax efficiency is not our primary consideration in the management of your assets. Regardless of your account size or any other factors, we strongly recommend that you continuously consult with a tax professional prior to and throughout the investing of your assets.

As a result of revised IRS regulations, custodians and broker-dealers will begin reporting the cost basis of equities acquired in client accounts on or after January 1, 2011. Your custodian uses the first in, first out (FIFO) accounting method as the default method for calculating the cost basis of your investments. You are responsible for contacting your tax advisor to determine if this accounting method is the right choice for you. If your tax advisor believes another accounting method is more advantageous, please provide written

notice to our firm immediately and we will alert your account custodian of your individually selected accounting method. Please note that decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

RISK OF LOSS

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

RECOMMENDATION OF PARTICULAR TYPE OF SECURITIES

As disclosed under the “Advisory Business” section in this Brochure, we primarily recommend equity securities, corporate debt securities, certificates of deposit, municipal securities, investment company securities (including mutual funds and variable annuities), exchange traded funds, US Government securities, options contracts on securities, and interest in partnerships investing in real estate, oil and gas interests, and others however, we may recommend other types of investments as appropriate for you since each client has different needs and different tolerance for risk. Each type of security has its own unique set of risks associated with it and it would not be possible to list here all of the specific risks of every type of investment. Even within the same type of investment, risks can vary widely. However, in very general terms, the higher the anticipated return of an investment, the higher the risk of loss associated with it.

There are numerous ways of measuring the risk of *equity securities* (also known simply as “equities” or “stock”). In very broad terms, the value of a stock depends on the financial health of the company issuing it. However, stock prices can be affected by many other factors including, but not limited to: the class of stock (for example, preferred or common); the health of the market sector of the issuing company; and, the overall health of the economy. In general, larger, better established companies (“large cap”) tend to be safer than smaller start-up companies (“small cap”) but the mere size of an issuer is not, by itself, an indicator of the safety of the investment.

Corporate debt securities (or “bonds”) are typically safer investments than equity securities, but their risk can also vary widely based on: the financial health of the issuer; the risk that the issuer might default; when the bond is set to mature; and, whether or not the bond can be “called” prior to maturity. When a bond is called, it may not be possible to replace it with a bond of equal character paying the same rate of return.

Certificates of deposit are generally the safest type of investment since they are insured by the federal government. However, because the returns are generally very low, it's possible for inflation to outpace the return. Likewise, *US Government securities* are backed by the full faith and credit of the United States government but it's also possible for the rate of inflation to exceed the returns.

Municipal securities, while generally thought of as safe, can have significant risks associated with them including, but not limited to: the credit worthiness of the governmental entity that issues the bond; the stability of the revenue stream that is used to pay the interest to the bondholders; when the bond is due to mature; and, whether or not the bond can be "called" prior to maturity. When a bond is called, it may not be possible to replace it with a bond of equal character paying the same amount of interest or yield to maturity.

Mutual funds and *exchange traded funds* are professionally managed collective investment systems that pool money from many investors and invest in stocks, bonds, short-term money market instruments, other mutual funds, other securities or any combination thereof. The fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. While mutual funds and ETFs generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market, primarily invests in small cap or speculative companies, uses leverage (i.e., borrows money) to a significant degree, or concentrates in a particular type of security (i.e., equities) rather than balancing the fund with different types of securities. Exchange traded funds differ from mutual funds since they can be bought and sold throughout the day like stock and their price can fluctuate throughout the day. The returns on mutual funds and ETFs can be reduced by the costs to manage the funds. Also, while some mutual funds are "no load" and charge no fee to buy into, or sell out of, other types of mutual funds do charge such fees which can also reduce returns. Mutual funds can also be "closed end" or "open end". So-called "open end" mutual funds continue to allow in new investors indefinitely which can dilute other investors' interests.

A *variable annuity* is a form of insurance where the seller or issuer (typically an insurance company) makes a series of future payments to a buyer (annuitant) in exchange for the immediate payment of a lump sum (single-payment annuity) or a series of regular payments (regular-payment annuity). The payment stream from the issuer to the annuitant has an unknown duration based principally upon the date of death of the annuitant. At this point the contract will terminate and the remainder of the fund accumulated forfeited unless there are other annuitants or beneficiaries in the contract. Annuities can be purchased to provide an income during retirement. Unlike fixed annuities that make payments in fixed amounts or in amounts that increase by a fixed percentage, variable annuities, pay amounts that vary according to the performance of a specified set of

investments, typically bond and equity mutual funds. Many variable annuities typically impose asset-based sales charges or surrender charges for withdrawals within a specified period. Variable annuities may impose a variety of fees and expenses, in addition to sales and surrender charges, such as: **mortality and expense risk charges; administrative fees; underlying fund expenses; and charges for special features**, all of which can reduce the return. Earnings in a variable annuity do not provide all the tax advantages of 401(k)s and other before-tax retirement plans. Once the investor starts withdrawing money from their variable annuity, earnings are taxed at the ordinary income rate, rather than at the lower capital gains rates applied to other non-tax-deferred vehicles which are held for more than one year. Proceeds of most variable annuities do not receive a "step-up" in cost basis when the owner dies like stocks, bonds, and mutual funds do. Some variable annuities offer "bonus credits". These are usually not free. In order to fund them, insurance companies typically impose mortality and expense charges and surrender charge periods. In an exchange of an existing annuity for a new annuity (so-called 1035 exchanges) the new variable annuity may have a lower contract value and a smaller death benefit; may impose new surrender charges or increase the period of time for which the surrender charge applies; may have higher annual fees; and provide another commission for the broker.

Options give an investor the right to buy or sell a stock at some future time at a set price. Options are complex investments and can be very risky, especially if the investor does not own the underlying stock. In certain situations, an investor's risk can be unlimited. Options are traded on an exchange and are not issued by the underlying company. Also, the lifetime of an option is measured in months.

A *limited partnership* is a financial affiliation that includes at least one general partner and a number of limited partners. The partnership invests in a venture, such as real estate development or oil exploration, for financial gain. The general partner does not usually invest any capital, but has management authority and unlimited liability. That is, the general partner runs the business and, in the event of bankruptcy, is responsible for all debts not paid or discharged. The limited partners have no management authority and confine their participation to their capital investment. That is, limited partners invest a certain amount of money and have nothing else to do with the business. However, their liability is limited to the amount of the investment. In the worst case scenario for a limited partner, they lose what they invested.

Item 7 – Client Information Provided to Portfolio Managers

The following information about the client is communicated by Harbor Financial to the wrap program client's SMA Manager (portfolio manager), if applicable, or collected by the client's investment advisor representative at the time the account is opened: name, social security/tax identification number, address, phone number, employer, occupation, date of birth, number of dependents, net worth, annual income, investment experience, retirement status, investment objective, risk tolerance and time horizon. The client is requested on an annual basis to update this information, which, if applicable, is promptly forwarded by the Harbor Financial to the client's SMA Manager (where applicable).

Item 8 – Client Contact with Portfolio Managers

With the exception of the OSM Program, the investment management agreement is exclusively between Harbor Financial and the client, and there is no direct agreement between the Manager and the client. Clients may contact the Manager, but generally do so through their investment advisor representative.

Item 9 – Additional Information

LEGAL AND DISCIPLINARY INFORMATION

Below is a summary of the material legal and disciplinary events against Harbor Financial during the last ten years. As of the date of this brochure, there are no such reportable events for our senior management personnel or those individuals in senior management responsible for determining the general investment advice provided to our clients.

Our firm operates as both a broker/dealer and as an investment adviser. The disciplinary reporting requirements for broker-dealers and investment advisers differ in some ways, with FINRA requiring broker-dealers to report on matters (for example, pending complaints and arbitrations) which are not required to be reported by investment advisers. The information in this report is not the only resource you can consult. You can access additional information about our firm and our management personnel on the SEC's website, located at <http://www.adviserinfo.sec.gov>, as well as FINRA's website, at finra.org/brokercheck.

Harbor Financial is subject to the regulatory oversight of the SEC, FINRA, the Department of Labor and other federal and state regulatory agencies. No regulatory enforcement actions have been brought against Harbor Financial by any of the aforementioned regulatory authorities concerning the firm's or its management's provision of advisory services.

Please note that in each instance described below, the firm entered into the various orders, consents and settlements without admitting or denying any of the allegations.

FINRA LETTER OF ACCEPTANCE, WAIVER AND CONSENT

During March 2012 we submitted a Letter of Acceptance, Waiver and Consent ("AWC") to Financial Industry Regulatory Authority ("FINRA") to settle allegations of rule violations. Harbor failed to establish and maintain a supervisory system reasonably designed to achieve compliance with NASD Conduct Rule 2440 (Fair Prices and Commissions), resulting in customers being charged unfair and unreasonable commissions on equity transactions, in violation of NASD Conduct Rules 2440, 3010 and 2110, FINRA Rule 2010 and NASD IM-2440-1.

Harbor accepted and consented, without admitting or denying the findings, and solely for the purposes of the proceeding brought by FINRA. As a result, Harbor had to pay a \$5,000 fine and restitution of \$19,152.70 plus interest.

CONNECTICUT CONSENT ORDER

On May 31, 2006, the Connecticut Banking Commissioner entered a consent order with respect to Harbor Financial Services, LLC, an applicant for Broker-Dealer registration. The consent order alleged that, contrary to representations made in its registration application, our firm had transacted business in Connecticut absent registration under the Connecticut Uniform Securities Act and had employed unregistered agents. The consent order also alleged that the firm's unregistered activity continued while the registration was pending, and that the firm had transacted business from an unregistered branch office. The end result was a \$10,000.00 administrative fine, \$2,000.00 disgorgement of commissions earned as a result of unregistered activity, \$250 past due broker fees, and \$500 reimbursement for division investigative costs. The consent order required that the firm implement revised supervisory and compliance procedures and provide the department with quarterly reports for two years concerning any securities related complaints, actions or proceedings involving Connecticut residents.

We maintain that a large portion of its Connecticut brokerage activity had consisted of automatic dividend reinvestments in mutual fund shares for clients who had transferred their accounts to the firm from another Broker-Dealer.

REGISTRATION AS BROKER DEALER, MUNICIPAL DEALER AND INSURANCE AGENCY

In addition to being registered as an investment adviser, our firm is also registered as a broker-dealer and associated persons of our firm are also registered representatives with our firm in its capacity as a broker-dealer. We are also a licensed insurance agency and associated persons of our firm are licensed insurance agents. Our firm and our associated persons earn compensation for selling securities and insurance products to you. Please refer to the fees and compensation section for further information and conflicts of interest including the compensation we earn as a result of these businesses.

Our firm also provides investment banking, underwriting, and advisory services to government agencies and municipalities to assist them in issuing bonds. Such bonds, although not available for a client's advisory account(s), may be available for a client, which would benefit the firm in connection with the services we provided to the issuer and the compensation that the firm receives from the issuers of the bonds. The firm may have a direct financial interest in having clients invest in the bonds.

DESCRIPTION OF OUR CODE OF ETHICS

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for our Associated Persons. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All of our Associated Persons are expected to adhere strictly to these guidelines. Our Code of Ethics also requires that certain persons associated with our firm submit reports of their personal account holdings and transactions to a qualified representative of our firm who will review these reports on a periodic basis. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm.

Our Code of Ethics is available to you upon request. You may obtain a copy of our Code of Ethics by contacting our Compliance Department at 888-397-7358.

PERSONAL TRADING PRACTICES

Our firm or persons associated with our firm may buy or sell securities for you at the same time we or persons associated with our firm buy or sell such securities for our own account. We may also combine our orders to purchase securities with your orders to purchase securities (“block trading”). Please refer to the “Brokerage Practices” section in this Brochure for information on our block trading practices.

A conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To eliminate this conflict of interest, it is our policy that neither our Associated Persons nor we shall have priority over your account in the purchase or sale of securities.

REVIEW OF ACCOUNTS

The Investment Adviser Representative (IAR) assigned to you is primarily responsible for reviewing your account and ensuring its continuing stability with respect to your investment objectives, time horizons and risk parameters. Investment Adviser Representatives of our firm will individually consult with you in order to better understand your investment goals. IAR's generally monitor accounts on a continuous basis and conduct an internal review periodically. Third party accounts are monitored on a periodic basis.

You are responsible for promptly bringing to the Investment Adviser Representative's attention any material change in your investment objectives or financial condition. Items that could trigger a review include, but are not limited to:

- contributions and withdrawals,
- year-end tax planning,
- market moving events,
- security specific events, and/or,
- changes in your risk/return objectives.

The Investment Adviser Representative will contact you at least annually to confirm your investment goals and will be available for consultation regarding your investment advisory accounts.

Managed account clients may receive quarterly Portfolio Evaluation Reports produced from account data submitted directly by the clearing broker-dealer providing custodial services for the accounts.

We will also arrange for you to receive the following reports on relevant activity in the account:

1. Trade Confirmations reflecting all transactions effected through our custodians;
2. Monthly statements itemizing all transactions in cash and securities and all deposits and withdrawals of principal and income during the preceding calendar month and listing securities held in the account where there is no monthly activity.

CLIENT REFERRALS AND OTHER COMPENSATION

Please refer to the *Brokerage Practices* section above for disclosures on research and other benefits we may receive resulting from our relationship with TD Ameritrade.

We and/or our investment adviser representatives may also receive benefits such as assistance with conferences and educational meetings from product sponsors. In addition, the firm and/or our investment adviser representatives may receive cash and non-cash marketing assistance from product sponsors.

We do not receive any compensation from any third party in connection with providing investment advice to you. We may compensate an individual (Solicitor) for referring clients to the firm. The compensation arrangement surrounding the payment for client referrals to our firm would be in compliance with Rule 206(4)-3 of the Investment Advisers Act of 1940. A client who is solicited will receive an additional disclosure document specifically describing the arrangement and the compensation paid to the solicitor. The solicitor's fee will be based on Harbor's normal fee schedule; you will not be charged any additional fees or expenses as a result of the referral.

As disclosed under the "Fees and Compensation" section in this Brochure, we are also registered as a broker-dealer and licensed as an insurance agency. Persons providing investment advice on behalf of our firm are licensed insurance agents, and are registered representatives. For information on the conflicts of interest this presents, and how we address these conflicts, please refer to the "Fees and Compensation" section.

FINANCIAL INFORMATION

We are not required to provide financial information to our clients because we do not:

- require the prepayment of more than \$1,200 in fees and six or more months in advance, or
- take custody of client funds or securities, or
- have a financial condition that is reasonably likely to impair our ability to meet our commitments to you.

YOUR PRIVACY

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any nonpublic personal information about you to any nonaffiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to nonpublic personal information about you to employees, who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your nonpublic personal information and to ensure our integrity and confidentiality. We will never sell information about you or your accounts to anyone.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Please contact the compliance department at 888-397-7358, if you have any questions regarding this policy.

CLASS ACTION LAWSUITS

We do not determine if securities held by you are the subject of a class action lawsuit, nor do we initiate or participate in litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you.

Should we receive written or electronic notice of a class action lawsuit, settlement or verdict affecting securities owned by you, we will forward all notices, proof of claim forms and other materials to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case, we would forward the information electronically.

TRADE ERRORS

In the event a trading error occurs in your account where the firm is involved in the execution of trades, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account. If a trade error results in a profit, the trade error will be corrected in the trade error account of the executing broker-dealer and you will not keep the profit.