

# Harbor Financial Services, LLC

(Disclosure Brochure)

November 14, 2017

11 N. Water Street, Suite 21290  
Mobile, AL 36602

251-650-0840

[www.harborfs.com](http://www.harborfs.com)

Form ADV, Part 2A, our "Disclosure Brochure" or "Brochure" as required by Investment Advisors Act of 1940 is a very important document between clients and Harbor Financial Services, LLC.

This 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. The oral and written communications we provide to you, including this Brochure, is information you use to evaluate us (and other advisers) which are factors in your decision to hire us or to continue to maintain a mutually beneficial relationship with us.

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

## **Item 2 Material Changes**

Material changes since our last annual brochure dated March 29, 2017 include:

### **Advisory Programs and Services and Fees**

In October 2017 the following changes were effective:

1. Investment Advisor Representatives no longer have the option to offer the Harbor Managed Account Program or the Harbor Managed Account-Sector Rotation Strategy Program. As such, Harbor does not currently sponsor a Wrap account program nor direct trade execution or custodial services with TD Ameritrade Institutional. Clients continue to have the option to select an outside broker dealer, including TD Ameritrade, Inc., to purchase investment products that are recommended in an Investment Advisory Agreement.
2. The blended fee schedules for Raymond James sponsored and/or administered advisory platforms changed as well as the Opportunity Platform Processing Fees in preparation for the Department of Labor's ("DOL") Conflict of Interest Rule-Retirement Investment Advice (the DOL's "Fiduciary Rule"). In addition, Harbor no longer receives revenue from the Raymond James Processing Fee.

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## Item 4 Advisory Business

### 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 [www.finra.org/Investors/ToolsCalculators/BrokerCheck/index.htm](http://www.finra.org/Investors/ToolsCalculators/BrokerCheck/index.htm). (FINRA Broker Check).

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. ("RJA"), although they are not required to and may use the broker-dealer/custodian of their choice.

Harbor Financial Services offers two broad categories of fee based programs- Advisory and Managed as follows:

#### 1. INVESTMENT ADVISORY ACCOUNT PROGRAMS

Independent Advisory Account Programs ("Independent Programs"): Harbor offers independent advisory account programs sponsored by Raymond James & Associates, Inc. (Raymond James). These programs, unlike the managed account programs discussed below, offer our clients the opportunity to maintain full investment authority and direct the individual investments made within their account, or they may delegate investment discretion to their Harbor investment advisor representative (provided certain qualifications are met). Raymond James provides support services for Harbor clients and financial advisors through these independent advisory account programs, such as establishing custodial facilities, initiating and/or adjusting pre-existing periodic investment and disbursement/payment plans, cash disbursements, account inquiry services, billing and payment remittance support, performance reporting, sales and trading support, educational opportunities and training to Harbor investment advisor representatives and other account maintenance services.

- Ambassador:

The Ambassador Account is a wrap fee investment advisory account, offered by Harbor and administered by Raymond James, in which the client is provided with ongoing investment advice and monitoring of securities holdings by their Harbor IAR. The client's IAR will supervise their account on a non-discretionary basis (or manage on a discretionary basis, provided certain qualifications are met), according to the client's objectives. This account offers clients the ability to pay an asset-based advisory wrap fee to Harbor in lieu of a commission for each transaction. A portion of the advisory fee is paid to RJA for administrative services.

There is a minimum investment of \$25,000 for Ambassador Accounts, although smaller accounts may be accepted based upon the specific circumstances of an account. **Please reference the RJA program**

**disclosure document for additional Ambassador Account services information.**

- Opportunity: We also offer the Opportunity Account ("Opportunity "), an investment advisory account, administered by RJA, on a non-discretionary or discretionary basis, provided certain qualifications are met. You will be provided with ongoing investment advice and monitoring of your securities holdings by your IAR. Opportunity offers you the ability to pay an asset based advisory fee and a nominal processing fee also described as a transaction charge) in lieu of commissions for each transaction.

There is a minimum investment of \$25,000 for Opportunity Accounts, although smaller accounts may be accepted based upon the specific circumstances of an account. The advisory fees for Opportunity Accounts are disclosed below at Item 5.

## **2. PORTFOLIO MANAGEMENT ACCOUNT PROGRAMS**

Harbor also offers portfolio management account programs sponsored by Raymond James & Associates, Inc. (Raymond James) through its Asset Management Services and Raymond James Consulting Services Division. If you participate in our discretionary sub-advisory portfolio management services, we require you to grant discretionary authority to manage your account. Discretionary authorization will allow us to recommend, select and monitor asset allocation investment models provided by Raymond James as sub-advisor. Discretionary authority is typically granted by the investment advisory agreement you sign with our firm and the appropriate trading authorization forms.

- Separately Managed Account Programs ("SMAs" or "SMA Programs"): In general, these accounts offer our clients the opportunity to select professional third party money managers ("TPMMs") to individually manage or provide portfolio recommendations to their account(s). The TPMMs made available through the below SMA Programs may include RJA and other third party investment management firms. Except where otherwise stated, the TPMMs made available through the SMA Programs set forth below are permitted on the platform based on RJA's familiarity with the TPMM and its underlying portfolio management personnel, the investment disciplines offered, portfolio construction and the overall belief that the participation of these TPMMs in the program will provide prospective clients access to high quality investment management firms.

A list of each SMA program accounts available through our firm is listed below. For further information refer to the RJA Wrap Fee Program Brochure.

- Raymond James Consulting Services Program
- Eagle High Net-Worth Program
- Outside Money Manager Program
- Raymond James Research Portfolios Program
- Mutual Fund/Exchange Traded Fund ("ETF") Managed Accounts:
  - 
  - Freedom  
The Freedom Account is an investment advisory account which allocates your assets, through discretionary mutual fund or exchange traded fund ("ETF") management, based upon your financial objectives and risk tolerances. Your IAR recommends, assists you in selecting and provides monitoring of asset allocation investment models developed and provided by Raymond James as sub-advisor. Your IAR receives a portion of the fee for services provided under the agreement. For further information refer to the RJA Wrap Fee Program Brochure.
  - Russel Model Strategies Program  
The Russell program is a mutual fund wrap advisory service that provides you the opportunity to

allocate assets among various asset classes that cover a variety of investment objectives; it is an asset allocation-based investment program investing in Frank Russell mutual funds. Russell develops model portfolios and selects the underlying funds populating the respective model strategy provided by Raymond James. Your IAR will assist you in selecting the appropriate strategy based upon your financial needs and investment objectives. Raymond James will annually rebalance your account to the original allocation. Your IAR receives a portion of the fee. For further information refer to the RJA Wrap Fee Program Brochure.

- **Freedom UMA (Unified Managed Account)**

The Freedom UMA Account is an investment advisory account which, like the Freedom account, allows you to allocate your assets through discretionary mutual fund or ETF management, based upon your financial objectives and risk tolerances with RJA as sub-advisor. Additionally, your assets may be invested through investment advisers (“Managers”) registered with the SEC with which RJA has entered into a sub-advisory agreement. Your IAR receives a portion of the fee for services provided under the agreement. For further information refer to the RJA Wrap Fee Program Brochure.

**INVESTMENT ADVISORY AND PORTFOLIO MANAGEMENT account programs are either wrap or non-wrap fee as follows:**

**WRAP FEE PROGRAM(s)**

- Advisory Account
  - Ambassador Account Program
- Mutual Fund/Exchange Traded Fund ("ETF") Managed Accounts
  - Freedom
  - Russell
- Separately Managed Accounts
  - Raymond James Consulting Services Program
  - Eagle High Net Worth Program
  - Outside Money Manager Program
  - Raymond James Research Portfolios Program
- Freedom UMA

Harbor Financial offers wrap fee programs sponsored and/or administered by RJA. The structure and nature of these accounts (including Freedom and Ambassador accounts) are considered to be wrap fee type programs in that commissions are not charged.

The client fee is paying for custody, trades, management expertise and reporting in a bundled format. In such instance, Harbor and your IAR will receive a portion of the wrap fee. Your total cost of each of the services provided through these programs could be different if purchased separately. Cost factors may include your ability to:

- Obtain the services provided within the programs separately from any of the mutual fund sponsors,
- Invest and rebalance the selected mutual funds without the payment of a transaction charge, and
- Obtain performance reporting comparable to those provided within each program.

**Please see the respective manager's Disclosure Document (ADV Disclosures) and/or Raymond James program disclosure document for a description of the services.**

To compare the cost of a wrap fee program with a non-wrap fee portfolio management program, you should consider the frequency of trading activity associated with our investment strategies and the brokerage

commissions charged by other broker-dealers, and the advisory fees charged by investment advisers. For more information concerning available Wrap Fee Program(s), see the respective manager's disclosure document.

## **NON-WRAP FEE PROGRAMS**

- Opportunity Account

In a non-wrap fee program, the Firm's advisory fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. We currently offer the following types of non – wrap advisory programs and services:

The Opportunity Account ("Opportunity ") is an investment advisory account, administered by Raymond James & Associates, Inc., which offers you, on a non-discretionary basis (or discretionary, provided certain qualifications are met), the ability to pay an advisory fee on the assets in your account and a transaction charge in lieu of a commission for each transaction. These services are offered in all states where Harbor is registered or is exempt from registration.

There is a minimum investment of \$25,000 for Opportunity Accounts, although smaller accounts may be accepted based upon the specific circumstances of an account. The advisory fees for Opportunity Accounts are detailed in ITEM 5 – Fees and Compensation.

## **OTHER ADVISORY SERVICE ARRANGEMENTS**

From time to time, and at our sole discretion, we will provide advisory services to clients in which we are not involved in the execution of any transactions. In such cases, after the advice has been provided to you, it is up to you and at your discretion whether to act on our advice. You may also select the custodian that you prefer, however the firm will not have access to trade in your accounts in any way.

## **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.

## **ASSETS UNDER MANAGEMENT**

Our calculation of assets under management is based on assets under management effective November 10, 2017 as follows:

<b>Type</b>	<b>Amount</b>
<b>Discretionary</b>	<b>\$151,235,772</b>
<b>Non-Discretionary</b>	<b>\$187,696,262</b>
<b>Total</b>	<b>\$338,932,034</b>

## Item 5 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. 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 may be prorated for each capital contribution and withdrawal made during the applicable calendar quarter (with the exception of de minimus contributions and withdrawals). Details about whether this applies to your advisory program may be found in your investment advisory agreement.

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.

Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in the fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to the Firm's advisory fee.

### WRAP FEES

The applicable standard wrap fee schedules are disclosed in the client agreement. While the asset-based fees are negotiable, the standard fee schedule's asset-level breakpoints and each applicable incremental fee rate are established by Raymond James as the administrator and/or platform sponsor. The client understands that unless a lower rate has been negotiated, they should expect that their fees will be based upon the applicable standard fee schedule.

Clients may negotiate asset-based fee and/or commission rates with their IAR, and such a decision is at the discretion of the IAR. Factors involved in this negotiation may include the nature and size of the overall client relationship with the IAR, the level and type of advisory or other financial services being or expected to be provided.

Please see Raymond James & Associates program disclosure document and/or the respective manager's Disclosure Document (ADV Disclosures) for a description of the services and fee methodology.

### NON-WRAP PROGRAM FEES AND COMPENSATION

#### 1. OPPORTUNITY BLENDED RATE FEE SCHEDULE

<b>Account Value</b>	<b>Total Fee</b>
<b>First \$1,000,000</b>	<b>2.25%</b>
<b>Next \$1,000,000 to \$2,000,000</b>	<b>2.00%</b>
<b>Next \$2,000,000 to \$5,000,000</b>	<b>1.75%</b>
<b>Next \$5,000,000 to \$10,000,000</b>	<b>1.50%</b>
<b>Over \$10,000,000</b>	<b>1.25%</b>



The annual asset-based fee is paid quarterly in advance. 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, is based on the account asset value on the last business day of the previous calendar quarter, and becomes due the following business day.

In this program, you authorize and direct Raymond James & Associates, Inc. as Custodian to deduct asset-based fees from your account; you also authorize and direct the Custodian to send a quarterly statement to you which shows all amounts disbursed from your account, including fees paid to us.

You understand that your brokerage statement will show the amount of the asset-based fee, the value of the assets on which the fee was based, and the specific manner in which the fee was calculated. There is also a Processing Fee (listed on trade confirmations under the title Trade Calculation as "Misc.") for the execution of each trade, as follows:

All security types other than Open-end Mutual Funds incur a \$15 per trade transaction fee.

Open-end Mutual Fund transaction fees\* will be as follows:

Participating Funds (No Transaction Fee) \$15\*\*

Partner Funds \$15

Non-Partner Funds (retirement account) \$15

Non-Partner Funds (non-retirement account) \$40

\*Open-end Mutual Fund sells will not incur a transaction fee.

\*\*A \$15 credit will be applied to client accounts who purchase a No Transaction Fee-eligible mutual fund.

Processing Fees are established by our custodian, Raymond James, and are subject to change without prior notice. For a complete listing of Participating Funds and Partner Funds see <http://www.raymondjames.com/legal-disclosures/packaged-product-disclosures/mutual-fund-investing-at-raymond-james/networking-and-service-partners>.

## **OTHER INVESTMENT ADVISORY FEE ARRANGEMENTS**

On occasion, in lieu of an asset based fee, our Investment Adviser Representatives may charge a negotiable fixed fee or hourly fee. The fee and fee paying arrangements will vary on a case by case and client by client basis, but be disclosed in advance of advisory services being rendered in the Investment Advisory Agreement.

Other advisory fees can be charged as a percentage of assets and may be as high as 2.25% of assets as defined in your agreement. This type of advisory fee will be calculated based on the asset balances at quarter end as provided by you or your custodian through custodian produced account statements or data feeds to the firm. An invoice for these fees will be provided to you detailing the basis for these fees. The fees will be due upon receipt of this invoice.

## **ADDITIONAL FEES AND EXPENSES**

Our fees are exclusive of non-Harbor 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,
- custodial fees,
- deferred sales charges,
- odd lot differentials,

- transfer taxes,
- wire transfer and electronic fund fees; and,
- other fees and taxes on brokerage accounts and securities transactions.

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 (12b-1 fees) and other fund expenses. To the extent 12b-1 fees are received by Raymond James for Ambassador, Opportunity, Freedom, or Freedom UMA accounts, our Clients will receive a credit to their Account in the amount equal to such fees received from the fund. For information on our brokerage practices, please refer to the "Brokerage Practices" section of this Disclosure Brochure.

You may also incur charges for other account services provided by Raymond James & Associates, Inc. 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 legal or courtesy transfers of securities. A list of Raymond James & Associates, Inc. other account service charges can be viewed online at [http://www.raymondjames.com/services\\_and\\_charges.htm](http://www.raymondjames.com/services_and_charges.htm) or obtained from your financial advisor.

You may terminate the investment advisory or management agreement by providing notice to our firm in accordance with the notice provisions in the advisory agreement you sign when you engage our firm. You will incur a pro rata charge for services rendered prior to the termination of the investment advisory agreement, which means you will incur advisory fees only in proportion to the number of days in the quarter for which you are a client. If you have pre-paid advisory fees that we have not yet earned, you will receive a prorated refund of those fees.

## **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 may also be 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 NOT transacted in Client's advisory account. 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 may also be 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.

## **Item 6 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.

## **Item 7 Types of Clients**

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

Account minimums vary by program or services as described in the "Advisory Business" section of this brochure.

## **Item 8 Methods of Analysis, Investment Strategies 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.
- 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. RJA uses the first in, first out (FIFO) accounting method as the default method for calculating the cost basis of your investments. Please discuss with your financial advisor to determine the default method to be used for your accounts. 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 9 Legal & 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 <https://brokercheck.finra.org/>.

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.

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

### **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.

We have an investment adviser representative who also provides accounting services under an unaffiliated accounting firm. This investment adviser representative, when servicing accounting clients, may recommend our services to persons in need of advisory services. We may recommend the accounting services of this accounting firm to advisory clients in need of accounting services. Accounting services provided by this accounting firm are separate and distinct from the advisory services of HFS, and are provided for separate and typical compensation.

This non-advisory activity presents a potential conflict of interest to the extent that our investment adviser representative may receive additional compensation should an advisory client become an accounting client of the accounting firm.

Clients should be aware that the potential for receipt of any additional compensation creates a conflict of interest that may impair the objectivity of our firm, our management persons, or our employees. There are no referral fee arrangements between the accounting firm and HFS for the recommendations mentioned above. No HFS client is obligated to use the accounting firm for any accounting services. Further, the services provided by this firm do not include the authority to sign checks or otherwise disburse funds on behalf of any of our advisory clients.

## **Item 11 Code of Ethics, Participation**

### **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.

## **Item 12 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 will use Raymond James and Associates, Inc. for trade execution services. Our firm receives additional revenue from Raymond James & Associates, Inc. for accounts custodied at Raymond James. In addition, Raymond James sponsors compliance events.

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



- the value of research provided,
- reputation,
- execution capability,
- commission rates,
- responsiveness;
- technology;
- 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.

## **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 13 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 clearing firm;
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.

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

We and/or our investment adviser representatives 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.

## **Item 15 Custody**

We directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. We do not have physical custody of any of your funds and/or securities. Your funds and securities will be held with an independent, qualified custodian. You will receive account statements from the independent, qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s)

will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy.

You should compare any statements you receive from us with the statements from your account custodian(s) to reconcile the information reflected on each statement. If you have a question regarding your account statement or if you did not receive a statement from your custodian, please contact the compliance department at 888-397-7358.

## **Item 16 Investment Discretion**

Before we can buy or sell securities on your behalf on a discretionary basis, you must first sign our discretionary management agreement and/or trading authorization forms.

You may grant our firm discretion over the selection and amount of securities to be purchased or sold for your account(s) without obtaining your consent or approval prior to each transaction. You may specify investment objectives, guidelines, and/or impose certain conditions or investment parameters for your account(s). For example, you may specify that the investment in any particular stock or industry should not exceed specified percentages of the value of the portfolio and/or restrictions or prohibitions of transactions in the securities of a specific industry or security. If you enter into non-discretionary arrangements with our firm, we will obtain your approval prior to the execution of any transactions for your account(s). Please refer to the "Advisory Business" section in this Brochure for more information on our discretionary management services.

Should you wish to impose or modify existing restrictions, or the financial condition or investment objectives have changed, you should contact your Investment Advisor Representative or our Compliance Department at 888-397-7358.

## **Item 17 Voting Client Securities**

### **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.

## **Item 18 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.

## **Item 19 Additional Information**

### **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 non-public personal information about you to any non-affiliated 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 non-public 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 non-public 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.