

# Harbor Financial Services, LLC

(Disclosure Brochure)

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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

This section describes the material changes to our Form ADV since our last annual Disclosure Brochure dated March 29, 2017.

### **“Advisory Programs and Services and Fees”**

- 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.
- The blended fee schedules and fee methodology for RJA 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 RJA Processing Fee.

In lieu of providing advisory clients with an updated Disclosure Brochure each year, we typically provide existing clients with this summary describing any material changes occurring since the last annual update. We will deliver the Disclosure Brochure or summary each year to existing clients within 120 days of the close of our fiscal year. Clients wishing to receive a complete copy of our then-current Disclosure Brochure may request a copy at no charge by contacting our Client Services department at 888-397-7358. Our Disclosure Brochure is also available through the SEC’s Investment Adviser Public Disclosure website at <https://adviserinfo.sec.gov/IAPD/IAPDSearch.aspx>, SEC# 801-65811, upon request through your financial advisor, or on our public website: <http://www.harborfs.com/disclosures.html>.

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## Item 4 Advisory Business

### **SERVICES**

Harbor Financial Services, LLC (“Harbor”) is 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 Harbor.

### **TYPES OF ADVISORY SERVICES**

Your investment advisor representative (“IAR”) works with you to determine the appropriate investment objectives based on the information you provide initially, and periodically thereafter. With this information, you and your adviser may select one of the following programs. If you wish to impose or modify an existing investment restriction, you may do so at any time by discussing this with your IAR.

Harbor and our IARs offer various types of advisory services. These advisory services include asset management, investment advice, and individual advisory consulting services, retirement plan consulting services and financial planning. Your IAR may act as an investment manager with certain investment programs or may recommend other non-affiliated asset managers. For more information regarding methods of analysis, investment strategies, and risk of loss, please refer to item 8 later in this brochure.

We provide investment advisory services through the following programs:

#### **1. Accounts Advised by Your IAR**

Harbor offers independent advisory account programs sponsored by Raymond James & Associates, Inc. (“RJA”). 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 IAR (provided certain qualifications are met). RJA 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 RJA, in which you are provided with ongoing investment advice and monitoring of securities holdings by your IAR. Your IAR will supervise your account on a non-discretionary basis (or manage on a discretionary basis, provided certain qualifications are met), according to your objectives. This account offers you 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. Your IAR receives a portion of the fee for services

provided under the agreement.

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:**

The Opportunity Account is a **non-wrap** fee-based account, offered by Harbor and administered by RJA, in which you are provided with ongoing investment advice and monitoring of securities holdings. Your IAR will manage your account on a discretionary (provided certain qualifications are met) or non-discretionary basis according to your objective. This account offers you the ability to pay an asset-based advisory fee and a nominal process fee (also described as a transaction charge) in lieu of a commission for each transaction. A portion of the advisory fee is paid to RJA for administrative services as well as all of the process (transaction) fees. Your IAR receives a portion of the fee for services provided under the agreement.

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 Fees and Compensation.

## **2. Accounts Managed by Other Asset Managers**

### **Mutual Fund/Exchange Traded Fund (“ETF”) Managed Accounts:**

- **Freedom**

The Freedom Account is an investment advisory **wrap** account which allocates your assets, through discretionary mutual fund or exchange traded fund (“ETF”) management, based upon your financial objectives and risk tolerances. RJA, as the subadvisor, selects the representative funds and monitor their performance on a continuing basis. 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.**

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

The Freedom UMA Account is an investment advisory **wrap** 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. 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.**

- **American Funds Model Portfolios Program**

The American Funds Model Portfolios 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 (each an American Funds “Model”). Similar to the Freedom program, the American Funds Program is an asset allocation-based investment program. However, unlike the Freedom program where the RJA Investment Committee establishes the asset allocation and selects the Funds for investment, the American Funds Program invests exclusively in American Funds mutual funds (similar to the Russell Program described below). Upon your selection of a Model, RJA as subadvisor manages each participating account on a discretionary basis with full power to effect by, exchange and/or sell transactions of American Funds no-load mutual fund shares in predetermined model portfolios held in your name. Capital Research and Management Company, the adviser to the American Funds family of mutual funds, develops model portfolios and selects the underlying funds populating each model. Your IAR will assist you in selecting the appropriate strategy based upon your financial needs and investment objectives. 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 Russell Investment Company mutual funds. Russell develops model portfolios and selects the underlying funds populating the respective model strategy. Your IAR will assist you in selecting the appropriate strategy based upon your financial needs and investment objectives. RJA 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.**

**Separately Managed Account Programs ("SMAs" or "SMA Programs"):**

In general, these accounts offer you the opportunity to select professional third-party money managers ("TPMMs") to individually manage or provide portfolio recommendations to your 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 investment management firms. Your IAR receives a portion of the fee for services provided under the agreement.

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**
- **Outside Money Manager Program**
- **Raymond James Research Portfolios Program**

### **3. Individual Investment Advisory Consulting and Financial Planning**

We provide investment advisory consulting and/or supervisory services involving an analysis of a particular investment portfolio, or overall financial situation. The consulting services may include a review of your current financial situation, with an emphasis on portfolio analysis, estate planning, insurance planning, education planning, retirement planning, and capital needs planning.

The decision to implement any recommendation rests exclusively with you, and you have no obligation to implement any such recommendations. 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 February 28, 2018 as follows:

Type	Amount
Discretionary	\$150,415,396
Non-Discretionary	\$208,936,880
Total	\$359,352,276

## Item 5 Fees and Compensation

We may base our fees on a percentage of assets under management, hourly charge, or fixed fees. Our investment advisory fees, as described herein, are negotiable and may vary on a case by case and client by client basis. Factors involved in this negotiation may include the nature and size of the overall relationship with your IAR and the level and type of advisory or other financial services being or expected to be provided. You should understand that unless a lower rate has been negotiated, Harbor will charge fees based upon the applicable standard fee schedule detailed below for each advisory account program. While the asset-based fees are negotiable, the fee schedule's asset-level breakpoints and each applicable fee rate may not be modified in any way.

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.

### 1. NON-WRAP PROGRAM FEES AND COMPENSATION

#### Opportunity Account

The Opportunity Account ("Opportunity") is an investment advisory account, administered by RJA, 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 nominal transaction charge, hereinafter referred to as the "Processing Fee," in lieu of a commission for each transaction. Processing fees are 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 redemptions 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, RJA, and are subject to change without prior notice. Processing fees are not commissions. Actual expenses incurred by RJA for any given transaction may be less than or greater than the processing fee. 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>.

The advisory fees for Opportunity Accounts are as follows:

<b>Fee-Based Relationship Value</b>	<b>Annualized 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.

For purposes of calculating and assessing the asset-based fees please reference the COMPENSATION CONSIDERATIONS section below.

You authorize and direct RJA when acting as Custodian, to deduct asset-based fees from your account; you further authorize and direct the Custodian to send a quarterly statement to you which shows all amounts disbursed from your account, including the fees paid to Harbor. 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 days used to calculate fees.

You may also incur charges for other services provided by Harbor, through RJA, not directly related to the advisory, execution and clearing services provided including, but not limited to, IRA custodial fees, safekeeping fees, charges/interest for maintenance of margin and/or short positions and fees for legal or courtesy transfers of securities.

Your Agreement may be terminated by you or us at any time upon providing notice pursuant to the provisions of our Agreement. In the event of termination of your Agreement, we will refund to you the prorated portion of the fee for the quarter of termination. There is no penalty for terminating your agreement.

There is a minimum initial investment of \$25,000 for Opportunity accounts.

### **Special Consideration**

Accounts with no trades, or a very limited number of trades may create a financial incentive and conflict of interest for a financial advisor to recommend maintenance of the Opportunity account over converting to a brokerage account (if available) and paying commission on a per trade basis. In making the determination whether an Opportunity account is appropriate for you, you (in consultation with your financial advisor) should carefully consider all relevant factors, which may include your past and anticipated trading practices and holdings of assets, the costs and potential benefits of the program, the level of service provided, and your investment objectives and goals.

In addition, because some or all of these considerations may change over time, you and your financial advisor



should re-evaluate periodically whether this account is appropriate under the circumstances then prevailing.

## **2. WRAP FEE ARRANGEMENTS**

**Please see RJA Wrap Fee Program Brochure and/or the respective manager's Disclosure Document (ADV Disclosures) for a description of the policies and services, including risks, trade execution and fee methodology.**

## **3. 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.

Financial planning and advisory consulting fees are negotiable between you and Harbor IARs. Fees charged for these services may depend upon the anticipated time allocated to provide the services requested, the complexity of the plan or the individual client's financial situation. The fees are determined in advance and mutually agreed upon between the client and Harbor and disclosed in an Advisory Consulting Agreement. The fees for financial planning and consulting can be structured as an hourly rate or fixed dollar fee. It is possible that a client of Harbor may pay more or less for similar services than may be available through another firm

Harbor or you may terminate the advisory consulting agreement by providing notice of such election to the other party. Investment programs involve risk and there is no guarantee that utilizing the financial planning and/or advisory consulting services of Harbor will produce favorable results.

## **COMPENSATION CONSIDERATIONS**

Harbor offers programs administered or sponsored by RJA through its Asset Management Services and Raymond James Consulting Services Division. As such, RJA plans are subject to the following asset based fee provisions:

- **ACCOUNT VALUE**

For purposes of calculating and assessing asset-based fees, RJA uses the term "Account Value", which may be different than the asset value as reported on brokerage statements provided to you. Pursuant to the investment management or advisory agreement, Account Value is defined as the total absolute value of the billable securities in the Account, long or short, plus all credit balances, with no offset for any margin or debit balances.

- **ADMINISTRATIVE-ONLY INVESTMENTS**

Accounts that hold Administrative-Only Investments do not have the value of these investments included in the relationship value used to calculate the advisory fee.

In select account programs, certain securities may be held in your account and designated "Administrative-Only Investments". There are two primary categories of Administrative-Only Investments: Client-designated and Raymond James-designated. Client-designated Administrative-Only Investments may be designated by financial advisors that do not wish to collect an advisory fee on certain assets, while Raymond James-designated Administrative-Only Investments are designated as such by RJA in conformance with internal policy.

For example, a financial advisor may make an arrangement with a client that holds a security that the financial advisor did not recommend or the client wishes to hold for an extended period of time and does not want their financial advisor to sell for the foreseeable future. In such cases the financial advisor may elect to waive the advisory fee on this security, but allow it to be held in your advisory account – such designations fall into the Client-designated category. Alternatively, RJA may determine that certain securities may be held in an advisory account but are temporarily not eligible for the advisory fee (such as for mutual funds purchased with a front-end sales charge through RJA within the last two years, new issues and syndicate offerings). Assets designated by

RJA as temporarily exempt from the advisory fee fall into the Raymond James-designated category.

Investments held in Ambassador and Opportunity Accounts may be composed of mutual fund shares only (both load and no-load funds may be utilized), individual equity and fixed income securities, or a combination of mutual fund shares and individual securities. With respect to load funds, only such funds for which the sales charge has been waived, pursuant to SEC Rules, may be purchased and eligible for the advisory fee in these programs. Clients may hold fund shares purchased in a commission-based account and assessed a front-end load at RJA in a fee-based Ambassador and/or Opportunity account. However, RJA will designate these shares as Administrative-Only assets for two years from their original purchase date, and no advisory fee will be charged during this period. Likewise, mutual fund shares subject to a contingent deferred sales charge, “CDSC” or back-end load (typically class B and C shares), will be designated as Administrative-Only assets, and no advisory fees will be assessed as long as these shares are held. This two year exclusion period (or “Two Year Rule”) has been implemented by RJA to avoid clients being assessed both a load and an advisory fee on the same asset, but only applies to load funds purchased through RJA.

The maintenance of assets in an advisory account that are not being assessed an advisory fee introduces a potential conflict that the financial advisor’s advice may be biased as a result of their not being compensated on this asset. As a result, the financial advisor may recommend a course of action in their and not your best interest (such as selling the security to increase the financial advisor’s compensation).

- **12B-1 TRAILS**

Investments in Ambassador and Opportunity Accounts with 12b-1 trails for billing eligible (NOT Administrative-Only) mutual funds, when received, will be credited to client accounts bi-monthly. Any credits will appear on client’s brokerage statement as a “Mutual Fund Fee Credit.”

In Opportunity accounts, 12b-1 trails for non-billable, Administrative-Only mutual funds will be paid to the financial advisor, when applicable.

- **BILLING ON CASH BALANCES**

RJA assesses advisory fees on cash sweep balances and money market funds (“cash”) held in advisory accounts.

Billing on cash balances, particularly when the cash balance is maintained for an extended period of time or comprises a significant portion of the Account Value, may create a financial incentive for a financial advisor to recommend maintenance of this cash versus investing in an otherwise advisory fee-eligible security. For example, it’s generally expected that the advisory fee will be higher than the interest a client will earn on this cash balance through their sweep account or the return earned on money market funds, so the client should expect to achieve a negative return on this portion of their account, although such cash balances will not be subject to market risk (that is, risk of loss) typically associated with securities investments. As a result, clients should periodically re-evaluate whether their maintenance of a cash balance is appropriate in light of their financial situation and investment goals, and should understand that this cash may be held outside of their advisory account and not subject to advisory fees.

- **NEW COMMISSION LOOKBACK POLICY**

Beginning August 1, 2018, a new commission lookback policy is being introduced for commission accounts that convert to fee-based accounts at RJA. RJA will review all purchases that take place 30 days prior to inception, identifying any commissions received for assets not included in the Administrative Only two-year rule. If identified, the full commission amount will be credited back to the client in the month following account inception.

**Please refer to RJA program disclosure documents for a complete description of RJA policies and services,**

including risks, trade execution and fee methodology.

## **ADDITIONAL EXPENSES NOT INCLUDED IN THE ASSET-BASED ADVISORY FEE**

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.

You should understand that the annual advisory fees charged in the programs are in addition to the management and operating expenses charged by open-end, closed-end and exchange-traded funds ("ETFs"). To the extent that you intend to hold fund shares for an extended period of time, it may be more economical for you to purchase fund shares outside of these programs. You may be able to purchase mutual funds directly from their respective fund families without incurring the advisory fee. When purchasing directly from fund families, you may incur a front or back-end sales charge. For information on our brokerage practices, please refer to the "Brokerage Practices" section of this Disclosure Brochure.

Certain open-end mutual funds that may be acquired by clients, may, in addition to assessing management fees, internally assess a distribution fee pursuant to section 12(b)-1 of the Investment Company Act of 1940, or an administrative or service fee ("trail"). Trails are included in the calculation of the annual operating expenses of a mutual fund and are disclosed in the fund prospectus. If received on RJA sponsored Ambassador and Opportunity advisory accounts with fee-eligible mutual funds, trails will be credited bi-monthly (as applicable) to the client's account(s) to offset advisory fees incurred by clients.

You should also understand that the shares of certain mutual funds offered in these programs impose short-term trading charges (typically 1%-2% of the amount originally invested) for redemptions generally made within short periods of time. These short-term charges are imposed by the funds (and not Harbor) to deter "market timers" who trade actively in fund shares. You should consider these short-term trading charges when selecting the program and/or mutual funds in which they invest. These charges, as well as operating expenses and management fees, may increase the overall annual cost to you by 1%-2% (or more). More information is available in each fund's prospectus.

You should be aware that ETFs incur a separate management fee, typically 0.20%-0.40% of the fund's assets annually (although individual ETFs may have higher or lower expense ratios), which is assessed by the fund directly and not by Harbor.

This management fee is in addition to the ongoing advisory fee assessed by Harbor, and will generally result in clients which utilize an SMA Manager or Investment Strategy that invests in ETFs paying more than clients utilizing one that -invests in individual securities, without taking into effect negotiated asset-based fee discounts, if any.

Certain no-load variable annuities and indexed annuities may be purchased in or transferred into accounts in the Ambassador or Opportunity programs and may be charged an asset-based advisory fee. The annual advisory fees charged for these no-load variable annuities are in addition to the annual management fees and operating expenses (which are typically higher than either mutual funds or ETFs) charged by the insurance companies offering these products.

You may also incur charges for other account services provided by RJA 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 RJA 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

## **BUNDLED SERVICE COST CONSIDERATIONS**

Your total cost for each of the services provided through the above programs, if purchased separately, could be more or less than the costs of each respective program. 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. 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 Harbor's advisory fee.

Cost factors may also include your ability to:

- Obtain the services provided within the programs separately with respect to the selection of portfolio securities,
- Invest and rebalance the selected mutual funds without the payment of a commission or sales charge, and
- Obtain performance reporting comparable to that provided within each program.

When making cost comparisons, you should be aware that the combination of multiple investments, advisory services, custodial and brokerage services available through each program may not be available separately or may require multiple accounts, documentation and fees. If an account within an advisory program is actively traded or you otherwise do not qualify for reduced commissions or sales charges, the fees may be less expensive than separately paying the commissions and/or sales charges and advisory fees. If an account within an advisory program is not actively traded or you otherwise would qualify for reduced commissions and/or sales charges, the fees in these programs may be more expensive than if utilized separately. Your financial advisor may have a financial incentive to recommend a fee-based advisory program rather than paying for investment advisory services, brokerage, performance reporting and other services separately. A portion of the annual advisory fee is paid to the financial advisor, which may be more than the financial advisor would receive under an alternative program or if the client paid for these services separately. Therefore, your financial advisor may have a financial incentive to recommend a particular account program over another.

## **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 *Item 5 Fees and Compensation* 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 *Item 5 Fees and Compensation* section of this brochure.

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

The investment programs and strategies recommended to clients are based upon the client's investment objectives, financial situation and tolerance for risk, as identified during consultations with our financial advisors and other representatives. It is important for an investor to review investment objectives, risk tolerance, tax objectives and liquidity needs with their financial advisor prior to selecting an investment product, program or strategy. All investments carry a certain degree of risk and no one security, investment product, investment style or portfolio manager is suitable for all types of investors.

Harbor and its financial advisors recommend and offer a broad spectrum of investment products, programs and strategies. The method of analysis and investment strategies recommended will vary based upon the individual financial advisor making the assessment and providing the advice.

Harbor and its financial advisors 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 Alpha Sector Premium Strategy model. The

Alpha Sector 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.

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.

All investment programs have certain risks that are borne by the investor. Among others, investors face the following risks:

**Interest-rate Risk:** Fluctuations in interest rates may cause investments to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.

**Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.

**Inflation Risk:** When any type of inflation is present a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.

**Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.

**Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (interest rate). This primarily relates to fixed income securities.

**Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk to profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.

**Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, U.S. Treasury securities are highly liquid, while real estate properties are not.

**Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profit loss, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

**Correlation Risk:** This is the risk that the actual correlation (a statistical measure of how two or more variables move in relation to each other) between two assets (or variables) will be different than the correlation that was assumed or expected. Differences between the actual and expected correlation may result in a portfolio being riskier than was anticipated.

**Counterparty/Default Risk:** This is the risk that a party to a contract will not live up to (or default on) its contractual obligations to the other party to the contract.

**Valuation Risk:** This is the risk that an asset is improperly valued in relation to what would be received upon its being sold or redeemed at maturity.

**Tax Risk:** This is the risk that tax laws may change and impact the underlying investment premise or profitability of an investment.

**Cybersecurity Risk:** Intentional cybersecurity breaches include unauthorized access to systems, networks, or devices (such as through "hacking" activity); infection from computer viruses or other malicious software code; and attacks that shut down, disable, slow, or otherwise disrupt operations, business processes, or website access or functionality. In addition, unintentional incidents can occur, such as the inadvertent release of confidential information (possibly resulting in the violation of applicable privacy laws). A cybersecurity breach could result in the loss or theft of customer data, the inability to access electronic systems ("denial of services"), loss or theft of proprietary information or corporate data, physical damage to a computer or network system, or costs associated with system repairs. Such incidents could cause an investment fund, the advisor, a manager, or other service providers to incur regulatory penalties, reputational damage, additional compliance costs, or financial loss.

**Technology Risk:** Harbor must rely in part on digital and network technologies to conduct its business. These technologies include those owned or managed by Harbor as well as those owned or managed by others, such as RJA and other financial intermediaries used by Harbor to provide services and maintain its business operations. These technology systems may fail to operate properly or become disabled because of events or circumstances wholly or partly beyond Harbor's or its service providers' control. Technology failures, whether deliberate or not, including those arising from use of third-party service providers or client usage of systems to access accounts, could have a material adverse effect on our business or our clients and could result in among other things, financial loss, reputational damage, regulatory penalties or the inability to conduct business.



## RECOMMENDATION OF PARTICULAR TYPE OF SECURITIES

As disclosed under the "Types of Investments" 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 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 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 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. 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 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.

## **RISK CONSIDERATIONS FOR MANAGED ACCOUNTS OFFERED THROUGH RJA**

**Please see the respective manager's Disclosure Document (ADV Disclosures) and/or RJA program disclosure document for a description of the risk considerations for managed accounts offered through RJA.**

## **CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS**

The following information about the client is communicated to the SMA Manager (portfolio manager) of a Portfolio Management Account Program, if applicable, or collected by the client's financial advisor 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 timer horizon. The client is requested on an annual basis to update this information, which, if applicable, is promptly forwarded to the client's discretionary SMA Manager (where

applicable).

## **Item 9 Legal & Disciplinary Information**

Below is a summary of the material legal and disciplinary events against Harbor 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 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 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 regarding the broker dealer. 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 because 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.

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 Harbor for the recommendations mentioned above. No Harbor 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 always and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All 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 can 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, RJA. Additionally, Harbor will use RJA. for trade execution services. Our firm receives additional revenue from RJA for accounts custodied at RJA. In addition, RJA sponsors compliance events.

While we believe that our firm and RJA provide best execution, commission rates/fees charged by RJA may be higher or lower than those charged by other broker-dealers. In determining whether our firm and RJA 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 charge 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 a 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 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 changes 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, quarterly statements when 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 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.

### **Financial Advisor with Discretionary Authority**

Ambassador and Opportunity accounts may allow clients to appoint discretionary authority to certain investment advisor representatives. Harbor has established guidelines with respect to the standards necessary for a financial advisor to qualify to manage or advise a discretionary account, which generally include, but are not limited to, the following:

- Appropriately registered as an Investment Adviser Representative;
- Five years of experience in the securities industry;
- Certain minimum commissions/fees earned and client assets in the prior twelve months;
- No significant customer complaints or disciplinary action against the financial advisor;
- Additional compliance and investment management training may be required. Certain relevant industry professional designations may be applicable; and
- Historical performance in existing accounts may be applicable.

Harbor retains the right to determine financial advisor qualifications for discretionary authority, regardless of whether they meet all of these guidelines and also reserves the right not to offer the accounts through financial advisors that otherwise meet these guidelines.

## **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. While 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 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 because 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.

## **BUSINESS CONTINUITY**

Harbor has adopted a Business Continuity Plan (“BCP”) [on how we will respond to events that significantly disrupt our business](#). Our BCP Disclosure Statement is available upon request through your financial advisor, or may be reviewed on the Harbor public website: <http://www.harborfs.com/continuity.html>.