

# Harbor Financial Services, LLC

(Disclosure Brochure)

March 30, 2016

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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**

Material changes since our last annual brochure dated March 30, 2015 include:

### **Other Advisory Service & Fee 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.

Other advisory fees can be charged as a percentage of assets and may be as high as 2% of assets. Advisory fees will be billed quarterly in advance and 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. Upon termination of the advisory relationship, advisory fees will be refunded to you on a pro rata basis.

**Opportunity Account** specific disclosures are updated to reflect the following (Note: processing fees remain subject to change without prior notice):

- As of July 1, 2015, the firm now receives a portion of the processing and handling fees for each trade execution.

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

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

Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

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

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## **Item 4 – Advisory Business**

### **INVESTMENT ADVISORY SERVICES**

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

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

You may also find further information on the Firm’s broker-dealer operations or the registered representatives associated with HFS by entering the Firm or the representative’s name at [www.finra.org/Investors/ToolsCalculators/BrokerCheck/index.htm](http://www.finra.org/Investors/ToolsCalculators/BrokerCheck/index.htm). (FINRA Broker Check).

### **PORTFOLIO MANAGEMENT SERVICES**

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

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

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

In a wrap fee program, clients are charged an all-inclusive wrap fee on Program Assets that covers advisory, execution, custodial and reporting services on Eligible Assets. A portion of these fees will be paid to the Firm for advisory services.

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.

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.

A. Harbor Financial sponsors two types of Wrap Fee accounts:

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

These programs are sponsored by the Firm and disclosed in a separate Wrap Fee Brochure. These wrap programs include portfolio management services including mutual funds and exchange traded funds (ETF's), along with individual fixed income and equity securities.

**Please see Harbor Financial Services' Wrap Fee Disclosure Brochure for a description of the services and fee information.**

B. Harbor Financial offers wrap fee programs sponsored by Raymond James & Associates, Inc. (Raymond James) through its Asset Management Services and Raymond James Consulting Services Divisions.

These divisions provide discretionary or non-discretionary investment advisory services to clients that choose one or more of the programs described below.

- Separately Managed Accounts
- Unified Managed Accounts
- Ambassador Account Program ("Ambassador")

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

- C. We currently offer the following types of non – wrap advisory programs and services:

**1. OPPORTUNITY ACCOUNT**

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 nationwide in all fifty states, the District of Columbia and Puerto Rico.

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.

**2. 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.

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

**TYPES OF INVESTMENTS**

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

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

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

## **ASSETS UNDER MANAGEMENT**

Our calculation of assets under management is based on assets under management effective March 16, 2016 as follows:

<b>Type</b>	<b>Amount</b>
Discretionary	\$117,393,266
Non-Discretionary	\$145,445,294
Total	\$262,838,560

## **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. It is your responsibility to determine if fees charged by us are suitable for you. Our fees may be higher than other investment advisers offering similar services. The specific manner in which fees are charged by us is established in your written agreement with us. Management fees 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 account 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.

- A. Clients who select a Harbor sponsored wrap fee program will receive a copy of the Harbor Financial Services Wrap Fee Disclosure brochure for a description of the services and for fee information.**



- B. Clients who select to use the Raymond James wrap fee program will receive a copy of the Raymond James wrap fee brochure. Please see the respective manager's Disclosure Document (Wrap Fee Brochure) and/or Raymond James program disclosure document for a description of the services and for fee information.**

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

**C. Non-Wrap Program Fees and Compensation**

**1. OPPORTUNITY BLENDED RATE FEE SCHEDULE**

**OPPORTUNITY Fee Investments**

Account Value	Total Fee
First \$500,000	2.25%
Next \$500,000	1.75%
Next \$4,000,000	1.25%
Amounts over \$5,000,000	1.00%

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. Accrued income is no longer included in the Account Value upon which the asset-based fee is based.

Prior to this change, the firm included accrued income, which is generally comprised of dividends and interest declared but not yet paid, when calculating asset-based fees. While accrued income will continue to be included in performance calculations, its removal from the fee calculation better aligns our billing practices with our financial services industry peers and reduces potential differences between the Account Value and asset values reported on your brokerage statement.

Cash reserve balances which exceed 20% of the Account Value at the time of billing will be included for fee purposes only if such balances did not exceed 20% of the Account Value at the end of the prior three quarterly valuation dates. Otherwise, the balance in excess of 20% will not be included in the Account Value for purposes of calculating the Advisory Fee.

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:

<b><u>SECURITY TYPE</u></b>	<b><u>PROCESSING FEE *</u></b>
Stocks: Listed and OTC/Closed End and Exchange Traded Funds	\$9.95
Mutual Funds (applicable to purchases only)**	
Participating Funds	Waived
Partner Funds	\$30
Non-Partner Funds	\$40
Real Estate Investment Trusts/Unit Investment Trusts	\$9.95
Preferred Stocks	\$9.95
Options Contracts	\$30
Bonds	\$30

\* Processing Fees are established by our custodian, Raymond James, and are subject to change without prior notice.

\*\* For a complete listing of mutual funds and fees, see [http://raymondjames.com/disclosure\\_mutual\\_funds\\_co.htm](http://raymondjames.com/disclosure_mutual_funds_co.htm)

Investment adviser representatives of Harbor Financial Services, LLC have the option to pay this transaction fee on behalf of their clients if they so choose.

In addition to the above processing fees, you will incur an additional processing charge per transaction for handling charges (listed on trade confirmations under the title Trade Calculation as “Processing Fee”. This charge is \$5.95 per transaction and is subject to change.

Harbor Financial receives a portion of processing fees or charges. This represents a conflict of interest between you and the firm as Harbor has a financial incentive to recommend more frequent trading activity. This portion of the fee is paid to the firm and no portion is paid to the investment advisor representative. The firm further mitigates this conflict of interest through transaction based account reviews to determine if it is in your best interest for the investment advisor representative to recommend an alternative account type that is more appropriate for you.

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.

Your agreement in this program may be terminated by you or us at any time upon providing notice pursuant to the provisions of the agreement. In the event of termination of the agreement, we will refund to you the prorated portion of the fee for the quarter of termination, which means that the advisory fee is payable in proportion to the number of days in the quarter for which you are a client.

## **2. OTHER 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.

Other advisory fees can be charged as a percentage of assets and may be as high as 2% 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 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 and other fund expenses. You will also incur transaction charges and/or brokerage fees when purchasing or selling securities. These charges and fees are typically imposed by the broker-dealer or custodian through whom your account transactions are executed. We do share in these brokerage fees/transaction charges imposed by the broker-dealer or custodian. To fully understand the total cost you will incur, you should review all the fees charged by mutual funds, exchange traded funds, our firm, and others. For information on our brokerage practices, please refer to the "Brokerage Practices" section of this Disclosure Brochure.

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

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

As a result of revised IRS regulations, custodians and broker-dealers will begin reporting the cost basis of equities acquired in client accounts on or after January 1, 2011. RJA uses the first in, first out (FIFO) accounting method as the default method for calculating the cost basis of your investments. The cost basis accounting method for accounts held at TD Ameritrade may vary by financial advisor, but is generally FIFO. 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 [finra.org/brokercheck](http://finra.org/brokercheck).

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

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

### **FINRA LETTER OF ACCEPTANCE, WAIVER AND CONSENT**

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

transactions, in violation of NASD Conduct Rules 2440, 3010 and 2110, FINRA Rule 2010 and NASD IM-2440-1.

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

### **CONNECTICUT CONSENT ORDER**

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

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

## **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.

## **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 may use Raymond James and Associates, Inc. for trade execution services on certain accounts. The Harbor Managed Account utilizes TD Ameritrade Institutional, a division of TD Ameritrade, Inc. (“TD Ameritrade”) an unaffiliated SEC-registered broker-dealer and member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation for trade execution and custodial services.

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

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

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

There is no direct link between our participation in the program and the investment advice we provide to you, although we do receive economic benefits through our participation in

the program that is typically not available to TD Ameritrade's retail investors. These benefits include the following products and services (provided without cost or at a discount):

- receipt of duplicate client statements and confirmations;
- research related products and tools;
- consulting services;
- access to a trading desk serving our participants;
- access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to your accounts);
- the ability to have our advisory fees deducted directly from your accounts;
- access to an electronic communications network for order entry and account information;
- access to mutual funds with no transaction fees and to certain institutional money managers; and
- discounts on compliance, marketing, research, technology, and practice management products or services provided to us by third party vendors.

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

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

The firm may receive compensation from brokerage commission charges for trade executions when Harbor Financial is acting as the broker-dealer. Additionally, the firm may receive compensation from the clearing firm for client assets maintained in certain money market sweep funds, monthly margin debit interest, and other client interest program balances. This compensation amount is dependent on our clients' cumulative level of assets within each of these categories. This could result in a conflict of interest to you since

we would not receive this compensation if your cash or cash equivalents were held outside your advisory account.

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

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

## **BROKERAGE FOR CLIENT REFERRALS**

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

## **DIRECTED BROKERAGE**

Persons providing investment advice on behalf of our firm who are registered representatives will recommend our firm to you for brokerage services. These individuals are subject to applicable rules that restrict them from conducting securities transactions away from our firm unless we provide the representative with written authorization to do so. Therefore, these individuals are generally limited to conducting securities transactions through our firm or through approved custodians. It may be the case that our firm or approved custodians charge higher transactions costs and/or custodial fees than another broker charges for the same types of services. If transactions are executed through our firm as broker dealer, these individuals (in their separate capacities as registered representatives of our firm) may earn commission-based compensation as result of placing the recommended securities transactions through our firm. Please see the “Fees and Compensation” section in this Brochure for more information on the compensation



received by registered representatives who are affiliated with our firm. Not all advisers require their clients to direct brokerage.

## **BLOCK TRADES**

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

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

## **Item 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**

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

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

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

As disclosed under the "Fees and Compensation" section in this Brochure, we are also registered as a broker-dealer and licensed as an insurance agency. Persons providing

investment advice on behalf of our firm are licensed insurance agents, and are registered representatives. For information on the conflicts of interest this presents, and how we address these conflicts, please refer to the “Fees and Compensation” section.

## **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.

## **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 nonpublic personal information about you to any nonaffiliated third

parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

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

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

## **CLASS ACTION LAWSUITS**

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

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

## **TRADE ERRORS**

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