

## Form ADV Part 2A Disclosure Brochure

### **The Garbacz Group, Inc.**

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Date of Brochure: June 2011

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This brochure provides information about the qualifications and business practices of The Garbacz Group, Inc. If you have any questions about the contents of this brochure, please contact Daniel Garbacz at 314-991-1303 or [dan@garbaczgroup.com](mailto:dan@garbaczgroup.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), or by any state securities authority.

Additional information about The Garbacz Group, Inc. is also available on the Internet at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can view our Firm's information on this website searching by name or using our Firm's CRD number, **26104**.

\*Registration as an investment advisor does not imply a certain level of skill or training.

## **Item 2 – Material Changes**

On July 28, 2010, the United States Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that The Garbacz Group, Inc. provides to clients as required by applicable rules and regulations. This Disclosure Brochure dated June 2011 is a new document prepared according to the new requirements and rules. As such, this document is materially different in structure and requires certain new information that our previous Form ADV Part II and Schedule F did not require. In the future, this item will discuss only specific material changes that are made to the Disclosure Brochure and provide readers with a summary of such changes. We will also reference the date of the last annual update of the brochure.

In the past our Firm has offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new rules, we will ensure that you receive a summary of any material changes to this and subsequent Disclosure Brochures within 120 days after our fiscal year ends. Our fiscal year ends on March 31 so you will receive the summary of material changes no later than July 31 each year. At that time we will also offer or provide a copy of the most current Disclosure Brochure. We may also provide other ongoing disclosure information about material changes as necessary.

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## Item 4 – Advisory Business

### **General Background**

The Garbacz Group, Inc. (also referred to as “us”, “we”, and the “Firm” throughout this disclosure brochure) is a Corporation formed under the laws of the State of Missouri and is dually registered as an investment advisor and broker/dealer. The Firm is registered with the Securities and Exchange Commission (SEC) as an investment advisor and registered as a broker/dealer with the SEC and member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Company (SIPC). Our Firm is also registered as an insurance agency with the State of Missouri. Although our Firm is a registered broker/dealer and insurance agency; this disclosure brochure provides only information about our investment advisory practices.

The Garbacz Group, Inc. is 100% owned and operated by Joseph Garbacz who also serves as our President, Chief Financial Officer and Chief Compliance Officer.

The Garbacz Group, Inc. has been in business since 1990 and registered as an investment advisor since November 1999.

You are advised that the investment recommendations and advice offered by The Garbacz Group, Inc. do not constitute legal or accounting advice. Therefore, you should coordinate and discuss the impact of financial advice with your attorney and/or accountant. Clients are advised that it is necessary to inform The Garbacz Group, Inc. promptly with respect to any changes in their financial situation, investment goals and objectives. Failure to notify The Garbacz Group, Inc. of any such changes could result in investment recommendations not meeting your individual needs.

### **Description of Investment Management Services**

Our Firm provides **Investment Management Services** to clients on an individualized basis. Our services involve providing clients with continuous and on-going supervision over client accounts. This means that we will continuously monitor a client's account and make trades in client accounts when necessary. Through this service, The Garbacz Group, Inc. implements a customized and individualized investment program for clients by applying our investment strategy and philosophy. The Garbacz Group, Inc. shall actively manage client investment portfolios in accordance with the client's individual needs, return objectives and risk tolerance.

Investment Management Services are provided through accounts established through The Garbacz Group, Inc. in our capacity as an introducing broker/dealer and then maintained at Pershing LLC (“Pershing”). Pershing will maintain custody of all funds and securities in the client's account and will serve as the client's qualified custodian and maintain physical custody of all client funds and securities. You must designate The Garbacz Group, Inc. as your investment advisor on the accounts you'd like The Garbacz Group, Inc. to manage. Please refer to Item 12 for more information regarding the Firm's brokerage arrangements.

Clients are always responsible for notifying The Garbacz Group, Inc. of any changes to their financial situation or investment objectives. At least annually, we will contact each client for the specific purpose to determine whether the client's financial situation or investment objectives have changed, or if the client would like to impose and/or modify any reasonable restrictions on the management of their accounts. We are always reasonably available to consult with clients relative to the status of their accounts. A client's beneficial interest in a security does not represent an undivided interest in all the securities held by the

custodian, but rather represents a direct and beneficial interest in the securities which comprise the accounts. A separate account is always maintained for each client with the broker-dealer/custodian and the client retains all rights of ownership to their accounts (e. g. right to withdraw securities or cash, exercise or delegate proxy voting, and receive transaction confirmations).

It is important that you understand that The Garbacz Group, Inc. manages investments for other clients and may give them advice or take actions for them or for our personal accounts that is different from the advice we provide to you or actions we take for you. We are not obligated to buy, sell or recommend to you any security or other investment that we may buy, sell or recommend for any other clients or for our own accounts.

Conflicts may arise in the allocation of investment opportunities among accounts that we manage. We strive to allocate investment opportunities believed appropriate for your account(s) and other accounts advised by our Firm among such accounts equitably and consistent with the best interests of all accounts involved. However, there can be no assurance that a particular investment opportunity that comes to our attention will be allocated in any particular manner. If we obtain material, non-public information about a security or its issuer that we may not lawfully use or disclose, we have absolutely no obligation to disclose the information to any client or use it for any client's benefit.

See Item 5 of this brochure for information on how we are compensated for this service.

#### **Description of Third Party Money Manager Program Services**

In addition to offering in-house Investment Management Services, we also offer advisory services by referring clients to outside, or unaffiliated, money managers that are registered as investment advisors. When we refer a client to a third-party investment advisor, the third-party investment advisor will provide asset management and investment advisory services directly to the client. Thus the third-party investment advisor is responsible for continuously monitoring client accounts and making trades in client accounts when necessary. Although we may work with additional third-party investment advisor firms in the future, currently, we have entered into an arrangement with only Lockwood Advisors, Inc.

When a client agrees to engage a third-party investment advisor that we recommend, our Firm is considered a solicitor to the third-party investment advisor and, as a result, our Firm is paid a portion of the fee charged and collected by the third-party investment advisor in the form of solicitor fees or consulting fees. Each solicitation arrangement is performed pursuant to a written solicitation agreement and is in compliance with SEC Rule 206(4)-3 and applicable state securities rules and regulations.

We are always responsible for assisting clients with identifying their risk tolerance and investment objectives. We will recommend third-party investment advisors and help determine appropriate investment strategies in relation to the client's stated investment objectives and risk tolerance. Clients will enter into an agreement directly with the unaffiliated third-party investment advisor.

Although the third-party investment advisor will be responsible for making all investment decisions, we will be available to answer questions the client may have regarding their account and act as the communication conduit between the client and the third-party investment advisors. Third-party investment advisors we recommend generally require discretionary authority to determine the securities to be purchased and sold in client accounts. Neither The Garbacz Group, Inc. nor its advisor representatives will have any trading authority with respect to the client's managed account(s) with the third-party investment advisor(s).

Although we review the performance of numerous third-party investment advisor firms, we enter into only a select number of relationships with third-party investment advisor firms that have agreed to pay us a portion of the overall fee charged to our clients. Therefore, The Garbacz Group, Inc. has a conflict of interest in that it will only recommend third-party investment advisors that will agree to compensate us for referrals of our clients.

Clients are advised that there may be other third-party managed programs, not recommended by our Firm, that are suitable for the client and that may be more or less costly than arrangements recommended by our Firm. No guarantees can be made that a client's financial goals or objectives will be achieved by a third-party investment advisor recommended by our Firm. Further, no guarantees of performance can ever be offered by our Firm (please refer to Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss for more details).

See Item 5 of this brochure for information on how we are compensated for this service.

**Limits Advice to Certain Types of Investments.**

We provide investment advice on the following types of investments:

- Exchange-listed securities (i.e. stocks)
- Securities traded over-the-counter (i.e. stocks)
- Foreign Issues
- Corporate debt securities (other than commercial paper)
- Certificates of deposit
- Municipal securities
- Variable annuities
- Mutual fund shares
- United States government securities
- Options contracts on securities
- Warrants
- We may provide advice on hedge funds and other private placement investments. Private offering (i.e. unregistered) investments are often illiquid, which means that the investments can be difficult to trade and consequently limits a client's ability to dispose of such investments in a timely manner and at an advantageous price. Additionally, such investments may not have been registered pursuant to the Securities Act of 1933, and therefore the client will need to complete a subscription agreement showing the client is an "accredited" investor (as defined by applicable law and rules and regulations) and acknowledge that he or she has read and understands the private placement memorandum and is aware of the various risk factors associated with such an investment.

The Garbacz Group, Inc. does not provide advice on, commercial paper, variable life insurance, options contracts on commodities, futures contracts on tangibles or intangibles, or interests in partnerships investing in real estate, oil and gas interests. This includes not providing advice on investments that are not registered such as hedge funds and private real estate limited partnerships.

When providing asset management services, we typically construct each client's account holdings using mutual funds, exchange traded funds, fixed income and equities to build diversified portfolios. It is not our typical investment strategy to attempt to time the market but we may increase cash holdings modestly as deemed appropriate, based on your risk tolerance and our expectations of market behavior. We may

modify our investment strategy to accommodate special situations such as low basis stock, stock options, legacy holdings, inheritances, closely held businesses, collectibles, or special tax situations.

(Please refer to Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss for more information.)

### **Tailor Advisory Services to Individual Needs of Clients**

The Garbacz Group, Inc.'s services are always provided based on the individual needs of each client. This means, for example, that you are given the ability to impose restrictions on the accounts we manage for you, including specific investment selections and sectors. We work with each client on a one-on-one basis through interviews and questionnaires to determine the client's investment objectives and suitability information.

### **Client Assets Managed by The Garbacz Group, Inc.**

The amount of clients assets managed by The Garbacz Group, Inc. through investment advisory accounts totaled \$ 24,743,863.00 as of March 31, 2011. The entire amount is managed on a discretionary basis.

## **Item 5 – Fees and Compensation**

### **Fees for Investment Management Services**

We provide three different fee arrangements for our clients selecting to engage our Investment Management Services as described below.

#### **1) Fee Based on Assets Under Management**

Our most common arrangement is charging based upon a portion of assets under management. Under this scenario, clients are generally charged based on the following fee schedule.

<u>Market Value of Client Assets</u>	<u>Fee Rate</u>
\$300,000 - \$650,000	1.000%
\$650,001 - \$1,000,000	1.000%
\$1,000,001 - \$2,500,000	1.000%
\$2,500,001 - \$4,000,000	0.750%
\$4,000,001 - \$6,000,000	0.625%
\$6,000,001 – and up	negotiable

Fees charged on assets that exceed \$6,000,001 are negotiable based on factors such as your financial situation and circumstances, the amount of assets under management, the amount of client-contact required, and the complexity of services provided. The fee for services includes defining investment objectives to determine risk tolerance and asset allocation models, investment management, safekeeping, reporting, and transfer fees. However, an additional transaction charge of up to \$35 is applied to each stock and preferred stock trade. A \$25 charge is applied to each bond and mutual fund trade. A portion of the transaction charge is retained by The Garbacz Group, Inc. in our capacity as a broker/dealer.

Certain clients pay lower fees from those set forth above due to historical factors and relationships. For example, our employees and their family members may be charged a discounted fee.

The exact fee for services will be agreed upon and detailed in the agreement for services prior to services being provided. We may change our fee schedule without prior notice; however, all fee increases must be approved by you. If an agreed upon fee is changed prior to the time a client signs an agreement for services, the client will be given the fee quoted rather than a fee according to the updated fee schedule.

Fees for our investment management services are billed quarterly in advance based on the value of the account at the end of the previous quarter. The first quarter's fee will be prorated based on the number of days the account is actually managed by The Garbacz Group, Inc. Fees are generally deducted directly from your account. Clients must provide the custodian with written authorization to have fees deducted from the account and paid to the advisor. The custodian will send client statements, at least quarterly, showing all disbursements for the account including the amount of the advisory fee that is deducted directly from the account. Please refer to Item 15 – Custody for more information. At our discretion, you may be permitted to pay fees directly to The Garbacz Group, Inc. via check. For clients that pay directly, payment is due upon receipt of the billing statement from our Firm.

As a broker/dealer, we have the ability to earn commissions for executing transactions within an investment management account. However, we do not include products in which we have received a commission in the client's asset management fee. In addition, you may incur certain charges imposed by third parties other than us in connection with investments made through the account, including but not limited to, mutual fund sales loads, 12b-1 fees and surrender charges, variable annuity fees and surrender charges, and IRA and qualified retirement plan fees. Management fees charged by The Garbacz Group, Inc. are separate and distinct from the fees and expenses charged by investment company securities that may be recommended to clients and retained by the advisor in its capacity as a broker/dealer. A description of these fees and expenses are available in each investment company security's prospectus. In our capacity as a broker/dealer, the Firm may receive trail commissions (i.e. 12b-1 fees) for a period of time. Load and no-load mutual funds may pay annual distribution charges, sometimes referred to as 12b-1 fees. 12b-1 fees come from fund assets, therefore, indirectly from client assets. 12b-1 fees may be initially paid to The Garbacz Group, Inc. and a portion passed to our associated persons in their capacity as registered representatives. The receipt of such fees could represent an incentive for our associated persons to recommend funds with 12b-1 fees over funds that have no fees or lower fees. As a result, there is a potential conflict of interest and we do not lower or offset our advisory fees by the amount of additional compensation received.

Either party (i.e. you or our Firm) may terminate the agreement by providing notice to the other party. Termination will be effective upon receipt of notification. If services are terminated within five (5) business days of executing the agreement, services will be terminated without penalty and all pre-paid fees will be refunded to the client. If services are terminated after the initial five day period, any unearned fees will be prorated and refunded to the client.

## **2) Performance Based Fee**

Under certain situations and only available to investors meeting the definition of "qualified client" (see Item 6 – Performance-Based Fees and Side-by-Side Management for details), we can provide investment management services and charge a performance based fee in addition to a fee based on the amount of assets under management. Under these arrangements, you will be



charged a fee based on the assets under management within your account and in accordance with the fee schedule and parameters detailed in the previous section. You will also be charged an additional fee contingent upon the performance within your account(s).

The performance based fee will be tied to goal achievement and evaluated once every 12 month period. The performance based fee will be payable annually and is based on the prior 12 month period's results and calculated based on the period's ending net asset value. The performance based fee shall not exceed 2.00% of your assets on a time weighted basis for the 12 month period. The performance fee is negotiable based on factors such as your financial situation and circumstances, the amount of assets under management, the amount of client contact required, and the complexity of services provided. An additional transaction charge of up to \$35 is applied to each stock, preferred stock, bond or mutual fund trade. A portion of the transaction charge is retained by us in our capacity as a broker/dealer.

In order for The Garbacz Group, Inc. to receive a performance based fee, we must meet a set of benchmarks agreed upon by you. The agreed upon benchmarks and a full description of the entire fee arrangement will be detailed in your agreement for services. The performance fee will be shown as a withdrawal thereby it will reduce performance. A performance fee will not be earned unless our performance exceeds the previously determined benchmark.

Please refer to Item 6 – Performance-Based Fees and Side-by-Side Management of this brochure for more details regarding our performance based fee arrangements.

Either party may terminate the agreement for services by providing notice to the other party. Termination will be effective upon receipt of notification. If services are terminated within five (5) business days of executing the agreement, services will be terminated without penalty and no performance fees shall be due. If services are terminated after the initial five day period, the performance fee will be annualized and the fee due (if any), shall be prorated.

### **3) Commissionable Fee Arrangement**

We can also provides investment management services in which a fee based on the assets under management of your account or a fee based on The Garbacz Group, Inc.'s performance is not charged. Instead, clients may contract for investment management services for which we are compensated based on commissions charged for executing transactions within the client's account. Based on the client's objectives, accounts under this type of arrangement require monitoring and not systematic restructuring.

Under this arrangement, we shall have discretionary trading authorization over your account and provide continuous and regular supervisory services. A commission shall be earned for each transaction executed within the account in our capacity as a broker/dealer. Clients entering into this arrangement are charged commissions based on the following commission schedule.

#### Stocks

\$0 to \$5,000	\$57.75 + .0132 of principal
\$5,001 to \$15,000	\$57.75 + .0099 of principal
\$15,001 to \$25,000	\$57.75 + .00825 of principal
\$25,001 to \$50,000	\$57.75 + .0066 of principal
\$50,0001 and Over	\$57.75 + .00545 of principal

Maximum charge: \$0.66 per Share  
Minimum charge: \$0.066 per Share

Minimum ticket charge for 0-100 shares: \$75.00

#### Bonds

Corporate and Municipal Bonds: \$5.50 per Bond and \$44.00 Transaction Fee

Treasuries (Including Zero Coupon): \$1.00 per \$1000  
Minimum \$50.00 . . . .Maximum \$100.00

This arrangement poses a potential conflict between our interests and your interests in that a commission-based arrangement creates the incentive for us to make trades in your account based on the fact that we will earn a commission for every trade and not based on what is in your best investment interest, a practice known as churning. To control for this potential conflict of interest, we only offer this arrangement to accounts expected to have minimal trading activity and a commission based compensation arrangement is a more cost effective strategy for the client (as compared to an assets-under-management fee arrangements). Another procedure we have implemented in order to limit the potential conflict to churn accounts is that we limit the amount of commissions that may be earned in an investment managed account. The total annual commissions earned by our Firm shall not exceed 2.00% of the client's total assets managed.

In addition to our commission schedule, clients may incur certain charges imposed by third parties other than us in connection with investments made through the account, including but not limited to, mutual fund sales loads, 12b-1 fees and surrender charges, variable annuity fees and surrender charges, and IRA and qualified retirement plan fees. The Garbacz Group, Inc. and its associated persons may receive a portion of these fees in their separate capacities as a broker/dealer and registered representatives. You should be aware that these fees come indirectly from the client's assets. Receipt of these fees could represent an incentive for registered representatives to recommend investments with higher fees over investments with lower or no fees, therefore creating a potential conflict of interest.

Either party may terminate the agreement by providing notice to the other party. Termination will be effective upon receipt of notification. If services are terminated within five (5) business days of executing the agreement, services will be terminated without penalty and all commissions earned will be refunded to the client.

#### **Fees for Third Party Money Manager Program Services**

If we recommend a third-party investment advisor to you, a complete description of the third-party investment advisor's services, fee schedules and account minimums will be provided in the third-party investment advisor's Form ADV Disclosure Brochure or Wrap Fee Program Brochure. Such brochures are provided to you when we initially recommend the third-party investment advisor.

The actual fee charged to a client will vary depending on the third-party investment advisor utilized. The portion retained by The Garbacz Group, Inc., in the form of solicitor fees or consulting fees, generally ranges between 0.50% to 1.25% of the client's total assets managed by the third-party investment advisor.

All fees are calculated and collected by the selected third-party investment advisor firm who shall be responsible for delivering our portion of the client fee to our Firm.

Clients may incur additional charges including but not limited to, mutual fund sales loads, 12b-1 fees and surrender charges, and IRA and qualified retirement plan fees. We will never receive any portion of such commissions or fees. We are only compensated by the share of the 3<sup>rd</sup> party management fee described above. We receive no other compensation in connection with a client's account managed by a third-party investment advisor.

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

As described above in Item 5 – Fees and Compensation, The Garbacz Group, Inc. provides services and is compensated in a way in which it accepts performance fees. That is, fees based on a share of capital gains or capital appreciation of the assets of a client. The Garbacz Group, Inc. also provides services and is compensated in a way in which it accepts asset based fees. That is, fees based on the total amount of assets owned by the client.

There are conflicts of interest The Garbacz Group, Inc. faces by managing these accounts at the same time. For example, the nature of a performance fee poses an opportunity for The Garbacz Group, Inc. to earn more compensation than under a stand-alone asset based fee. Thus The Garbacz Group, Inc. may favor performance fee accounts over those accounts where The Garbacz Group, Inc. receives only an asset based fee. One way The Garbacz Group, Inc. may favor performance fee accounts is that The Garbacz Group, Inc. may devote more time and attention to performance fee accounts than to accounts under an asset-based arrangement.

There are other conflicts associated with performance fees that are not as common under an asset-based fee arrangement. The nature of performance fees can encourage unnecessary speculation with client assets in order to earn or increase the amount of the fee. The result of riskier investments can have a positive effect in that results could equal higher returns when compared to an asset-based account. On the other hand, riskier investments historically have a higher chance of losing value. Also, since in a performance fee arrangement an advisor is compensated based on capital gains or capital appreciation, these arrangements could give an investment advisor an incentive to time transactions in a client's account on the basis of fee considerations rather than on what is necessarily in the best interest of the client.

Performance fees can potentially cause an investment advisor to engage in transactions or strategies which will increase the amount of the performance fees, but which may not increase the overall performance of the client's account. For example, an account may lose value during a year and no performance fee will be earned. In the following year, The Garbacz Group, Inc. may receive a performance fee for simply recouping losses from the previous year. The Garbacz Group, Inc. controls for this potential conflict of interest by using a benchmark (also known as a high-water mark) as detailed in Item 5 of this brochure. A performance fee may also encourage The Garbacz Group, Inc. to make riskier and more speculative investments. The Garbacz Group, Inc. does not represent that the amount of the performance fees or the manner of calculating the performance fees is consistent with other performance related fees charged by other investment advisers under the same or similar circumstances. The performance fees charged by The Garbacz Group, Inc. may be higher than the performance fees charged by other investment advisers for the same or similar services.

The Garbacz Group, Inc. has established policies and procedures to address the various conflicts of interest associated with charging a performance fee:

- The Garbacz Group, Inc. devotes equal time to the management of performance fee accounts and asset based accounts.
- Only clients that are able to assume additional risk are solicited to engage in a performance fee arrangement. The Garbacz Group, Inc. provides such clients full disclosure of the additional risks associated with a performance fee arrangement.
- Performance of client accounts must reach a pre-determined and agreed upon benchmark (or high-water mark).

Our performance based fee arrangement shall comply with Section 205-3 of the Investment Advisers Act of 1940. According to Section 205-3, only individual clients meeting the SEC's definition of "qualified clients" may enter into agreements providing for performance based compensation to us. A natural person or company must meet the following conditions to be considered a qualified client.

- Have at least \$750,000 under management with The Garbacz Group, Inc. at the time the client enters into an agreement with The Garbacz Group, Inc.; and
- Provide documentation to The Garbacz Group, Inc. so that The Garbacz Group, Inc. shall reasonably believe the client has either a net worth of \$1,500,000 or is a qualified purchaser under Section 2(a)(51)(A) of the Investment Company Act.

#### **Item 7 – Types of Clients**

- Currently our client base consists exclusively of individuals and high-net worth individuals. This includes working with trusts and estates.
- All clients are required to enter into a written advisory agreement prior to the establishment of an investment advisor relationship.
- A minimum investment amount of \$750,000 is required in order to enter into a performance based fee arrangement. In addition, the client must provide documentation that reasonably proves the client has a net worth of at least \$1,500,000 or meets the definition of qualified purchaser per the requirements of the Investment Company Act.
- We will not enter into an investment advisor relationship with a client whose investment objectives may be considered incompatible with our basic investment philosophy or strategies or where the prospective client seeks to impose unduly restrictive investment guidelines.

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

##### **Methods of Analysis**

The Garbacz Group, Inc. uses the following methods of analysis in formulating investment advice:

Fundamental - A method of evaluating a security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall economy and industry conditions) and individually specific factors (like the financial condition and management of companies). The end goal of performing fundamental

analysis is to produce a value that an investor can compare with the security's current price in hopes of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short). This method of security analysis is considered to be the opposite of technical analysis. Fundamental analysis is about using real data to evaluate a security's value. Although most analysts use fundamental analysis to value stocks, this method of valuation can be used for just about any type of security.

The risk associated with fundamental analysis is that it is somewhat subjective. While a quantitative approach is possible, fundamental analysis usually entails a qualitative assessment of how market forces interact with one another in their impact on the investment in question. It is possible for those market forces to point in different directions, thus necessitating an interpretation of which forces will be dominant. This interpretation may be wrong, and could therefore lead to an unfavorable investment decision.

Technical - A method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity. Technical analysts believe that the historical performance of stocks and markets are indications of future performance.

Technical analysis is even more subjective than fundamental analysis in that it relies on proper interpretation of a given security's price and trading volume data. A decision might be made based on a historical move in a certain direction that was accompanied by heavy volume; however, that heavy volume may only be heavy relative to past volume for the security in question, but not compared to the future trading volume. Therefore, there is the risk of a trading decision being made incorrectly, since future trading volume is an unknown. Technical analysis is also done through observation of various market sentiment readings, many of which are quantitative. Market sentiment gauges the relative degree of bullishness and bearishness in a given security, and a contrarian investor utilizes such sentiment advantageously. When most traders are bullish, then there are very few traders left in a position to buy the security in question, so it becomes advantageous to sell it ahead of the crowd. When most traders are bearish, then there are very few traders left in a position to sell the security in question, so it becomes advantageous to buy it ahead of the crowd. The risk in utilization of such sentiment technical measures is that a very bullish reading can always become more bullish, resulting in lost opportunity if the money manager chooses to act upon the bullish signal by selling out of a position. The reverse is also true in that a bearish reading of sentiment can always become more bearish, which may result in a premature purchase of a security.

### **Investment Strategies**

The Garbacz Group, Inc. uses the following investment strategies when managing client assets and/or providing investment advice:

Long term purchases. Investments held at least a year.

Short term purchases. Investments sold within a year.

Margin transactions. When an investor buys a stock on margin, the investor pays for part of the purchase and borrows the rest from a brokerage firm. For example, an investor may buy \$5,000

worth of stock in a margin account by paying for \$2,500 and borrowing \$2,500 from a brokerage firm. Clients cannot borrow stock directly from The Garbacz Group, Inc.

Option writing including covered options, uncovered options, or spreading strategies. Options are contracts giving the purchaser the right to buy or sell a security, such as stocks, at a fixed price within a specific period of time.

### **Risk of Loss**

Past performance is not indicative of future results. Therefore, you should never assume that future performance of any specific investment or investment strategy will be profitable. Investing in securities (including stocks, mutual funds, and bonds) involves risk of loss. Further, depending on the different types of investments there may be varying degrees of risk. You should be prepared to bear investment loss including loss of original principal.

Because of the inherent risk of loss associated with investing, our Firm is unable to represent, guarantee, or even imply that our services and methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to market corrections or declines. There are certain additional risks associated when investing in securities through our investment management program.

- Market Risk – Either the stock market as a whole, or the value of an individual company, goes down resulting in a decrease in the value of client investments. This is also referred to as systemic risk.
- Equity (stock) market risk – Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock equivalents, of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.
- Company Risk. When investing in stock positions, there is always a certain level of company or industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. For example, if a company's employees go on strike or the company receives unfavorable media attention for its actions, the value of the company may be reduced.
- Fixed Income Risk. When investing in bonds, there is the risk that issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk.
- Options Risk. Options on securities may be subject to greater fluctuations in value than an investment in the underlying securities. Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks.

- **ETF and Mutual Fund Risk** – When investing in a an ETF or mutual fund, you will bear additional expenses based on your pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. Clients will also incur brokerage costs when purchasing ETFs.
- **Management Risk** – Your investment with our Firm varies with the success and failure of our investment strategies, research, analysis and determination of portfolio securities. If our investment strategies do not produce the expected returns, the value of the investment will decrease.
- **Margin Risk** - When you purchase securities, you may pay for the securities in full or you may borrow part of the purchase price from your broker/dealer. If you intend to borrow funds in connection with your account, you will be required to open a margin account, which will be carried by the broker/dealer of your account. The securities purchased in such an account are the broker/dealer's collateral for its loan to you.

If the securities in a margin account decline in value, the value of the collateral supporting this loan also declines, and, as a result, a brokerage firm is required to take action, such as issue a margin call and/or sell securities or other assets in your accounts, in order to maintain necessary level of equity in the account.

It is important that you fully understand the risks involved in trading securities on margin, which are applicable to any margin account that you may maintain, including any Margin Account that may be established as a part of our Investment Management Services and held by your broker/dealer. These risks include the following:

- You can lose more funds than you deposit in your margin account.
- The broker/dealer can force the sale of securities or other assets in your account.
- The broker/dealer can sell your securities or other assets without contacting you.
- You are not entitled to choose which securities or other assets in your margin account that may be liquidated or sold to meet a margin call.
- The broker/dealer may move securities held in your cash account to your margin account and pledge the transferred securities.
- The broker/dealer can increase its "house" maintenance margin requirements at any time and are not required to provide you advance written notice.
- You are not entitled to an extension of time on a margin call.

### **Item 9 – Disciplinary Information**

Item 9 is not applicable to this Disclosure Brochure because there are no legal or disciplinary events that are material to a client's or prospective client's evaluation of our business or integrity.

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

The Garbacz Group, Inc. is engaged in activities other than serving as an investment advisor. The Garbacz Group, Inc. is a broker/dealer, member FINRA/SIPC. Joseph and Daniel Garbacz are also registered representatives of The Garbacz Group, Inc. as a broker/dealer. In these capacities, they may sell investment products to clients for commissions. In addition, The Garbacz Group, Inc. is an insurance

agency and Joseph Garbacz is an independent insurance agent. In these capacities, The Garbacz Group, Inc., Joseph Garbacz and Daniel Garbacz may receive commissions for the sale of insurance products to clients through various, unaffiliated, insurance companies.

As a broker/dealer and insurance agency, we recommend, sell and service investments such as stocks, bonds, CDs, mutual funds, and annuities. All securities transactions are done through The Garbacz Group, Inc. in its capacity as a broker/dealer. Some fixed annuities and all life insurance sales are transacted through Joseph or Daniel Garbacz as insurance agents. The majority of The Garbacz Group, Inc. and Joseph and Daniel Garbacz's time is devoted to securities and investment advisory services.

The Garbacz Group, Inc. is **not** and does **not** have a related company that is a (1) investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund), (2) futures commission merchant, commodity pool operator, or commodity trading advisor, (3) banking or thrift institution, (4) accountant or accounting firm, (5) lawyer or law firm, (6) pension consultant, (7) real estate broker or dealer, or (8) sponsor or syndicator of limited partnerships.

### **Third-Party Money Managers**

As described in *Item 4 – Advisory Business* and *Item 5 – Fees and Compensation*, The Garbacz Group, Inc. has formed relationships with independent, third-party money managers.

When we refer clients to a third party money manager, you need to know that our Firm will receive a portion of the fee charged by the third party money manager. Therefore, we have a conflict of interest in that we will only recommend third party money managers that will agree to compensate our Firm by paying us a portion of the fees billed to your account managed by the third party money manager.

## **Item 11 – Code of Ethics, Participation in Client Transactions and Personal Trading**

### **Code of Ethics Summary**

Rule 204A-1 under the *Investment Advisers Act of 1940* requires all investment advisers to establish, maintain and enforce a Code of Ethics. We have established a Code of Ethics that will apply to all of our supervised persons. An investment adviser is considered a fiduciary according to the *Investment Advisers Act of 1940*. As a fiduciary, it is an investment adviser's responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our clients at all times. We have a fiduciary duty to all clients. This fiduciary duty is considered the core underlying principle for our Code of Ethics which also covers our Insider Trading and Personal Securities Transactions Policies and Procedures. We require all of our supervised persons to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. Upon employment or affiliation and at least annually thereafter, all supervised persons will sign an acknowledgement that they have read, understand and agree to comply with our Code of Ethics. We have the responsibility to make sure that the interests of all clients are placed ahead of ours or our supervised person's own investment interest. Full disclosure of all material facts and potential conflicts of interest will be provided to clients prior to any services being conducted. Our supervised persons must conduct business in an honest, ethical and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients.

This disclosure is provided to give all clients a summary of our Code of Ethics. However, if a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided promptly upon request.



### **Affiliate and Employee Personal Securities Transactions Disclosure**

Our supervised persons may buy or sell for their personal accounts, investment products identical to those recommended to clients. This creates a potential conflict of interest. To control for this conflict of interest, it is our express policy that all persons associated in any manner with the Firm must place the interests of our clients ahead of their own when implementing personal investments. Personnel are not permitted to buy or sell securities for their personal account(s) where their decision is derived, in whole or in part, by information obtained as a result of their employment unless the information is also available to the investing public upon reasonable inquiry. Generally speaking, securities recommended by The Garbacz Group, Inc. are widely held and publicly traded. As stated above, we have developed policies and procedures to review and monitor the personal trading of our personnel. Procedures are designed to ensure our personnel are not taking advantage of client positions.

## **Item 12 – Brokerage Practices**

### **Arrangement with Pershing, LLC**

If clients wish to have our advisor representatives implement investment advice in their capacity as registered representatives or through our Investment Management Services program, then The Garbacz Group, Inc.'s brokerage services must be used. Advisor representatives of The Garbacz Group, Inc. are also registered securities agents of The Garbacz Group, Inc. (in our capacity as a broker/dealer) and are required to use the services of our approved clearing broker-dealer when acting in their capacity as registered securities agents. The Garbacz Group, Inc. serves as the introducing broker-dealer. All accounts established through The Garbacz Group, Inc. will be cleared and held at Pershing, LLC which serves as the qualified custodian.

We have a wide range of approved securities products for which we perform due diligence prior to selection. The Garbacz Group, Inc.'s registered securities agents are required to adhere to these products when implementing securities transactions through The Garbacz Group, Inc.

The requirement for clients to use The Garbacz Group, Inc. is based on our decision that we can provide efficient and cost-effective services through our own Firm in its capacity as a broker/dealer. However, there is an inherent conflict of interest between The Garbacz Group, Inc. and our clients because requiring clients to use our brokerage services allows us to retain brokerage revenue that would otherwise be retained by an unaffiliated broker/dealer. Clients should understand that not all investment advisors require the use of a particular broker/dealer or require the use of a broker/dealer that is affiliated with the investment advisor.

The requirement to use Pershing (which is not affiliated with The Garbacz Group, Inc.) is based on the fact that we have established a clearing agreement with Pershing as our preferred clearing broker/dealer and qualified custodian. The decision to use Pershing is based on past experiences, minimizing brokerage expenses and other costs as well as offerings or services Pershing provides that we and/or our clients may require or find valuable. There are some investment advisors that permit the use of multiple broker/dealers and permit clients to select the broker/dealer. The Garbacz Group, Inc. has considered the positive factors to this approach which includes the ability to better negotiate brokerage costs such as transaction fees, the ability to better analyze speed of execution, and the ability to compare and negotiate services. However, The Garbacz Group, Inc. has determined that the use of one brokerage platform (The Garbacz Group, Inc./Pershing) allows us to provide more streamlined operational and trading services. We consider the fact that allowing multiple brokerage arrangements would increase the need for additional internal staff and technology which may increase the overall fees charged to our clients. By selecting one brokerage platform, we are able to avoid additional compliance, recordkeeping, staffing,

and technological costs that may be associated with implementing procedures designed to work with multiple brokerage platforms. Considering all factors in relation to our structure and capacities, we have concluded that requiring one brokerage platform (The Garbacz Group, Inc./Pershing) is a better policy than permitting multiple brokerage arrangements including client directed brokerage arrangements. However, the current policy may change in the future and if we decide to permit other brokerage arrangements all clients will be made aware of the change in policy.

Commission and fee structures of various broker/dealers, along with services, research and tools are periodically reviewed by The Garbacz Group, Inc. in order to evaluate the overall execution services provided by The Garbacz Group, Inc. and Pershing. Accordingly, while we will consider competitive rates, we may not necessarily obtain the lowest possible commission and brokerage rates for client account transactions. Therefore, the overall services provided by both our Firm and Pershing are evaluated to determine the level of best execution provided to clients. However, considering we require clients to use our brokerage services, we may be unable to achieve the *most* favorable execution of client transactions and therefore our practice of requiring the use of The Garbacz Group, Inc. and Pershing may cost clients more money compared to advisory programs offered by other investment advisors.

While clients may be able to attain brokerage services with lower costs and expenses, clients should be aware of some of the qualitative factors we consider for selecting Pershing. Pershing is able to provide numerous specialized service groups and a Client Service Manager who is dedicated to servicing The Garbacz Group, Inc. and our accounts. Their back-office system generates exception reports designed to monitor all aspects of brokerage accounts, including trading, money movement, transfers, and client account data. Client paperwork is processed through a secure electronic workflow and storage system. Pershing's electronic trading platform provides a real-time order matching system, ability to "block" client trades, automated rebalancing, account balance and position information, and access to mutual fund families including those with no transaction fees. Clients may access their account information over the internet, including balances, transactions, positions, statements, confirmations, and tax documents. Advisory fees can be calculated on aggregated account balances and are debited directly from client accounts. It should be noted that we do **not** receive referrals from Pershing.

### **Block Trading Policy**

Transactions implemented by The Garbacz Group, Inc. for client accounts are generally effected independently, unless we decide to purchase or sell the same securities for several clients at approximately the same time. This process is referred to as aggregating orders, batch trading or block trading and is used by our Firm when The Garbacz Group, Inc. believes such action may prove advantageous to clients. When The Garbacz Group, Inc. aggregates client orders, the allocation of securities among client accounts will be done on a fair and equitable basis. Typically, the process of aggregating client orders is done in order to achieve better execution, to negotiate more favorable commission rates or to allocate orders among clients on a more equitable basis in order to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among our Firm's clients in proportion to the purchase and sale orders placed for each client account on any given day. When we determine to aggregate client orders for the purchase or sale of securities, including securities in which we may invest, we will do so in accordance with the parameters set forth in the SEC No-Action Letter, *SMC Capital, Inc.* It should be noted, we do not receive any additional compensation or remuneration as a result of aggregation.

## **Item 13 – Review of Accounts**

### **Account Reviews and Reviewers**

On at least a quarterly basis, we will review client accounts from the perspective of performance and compliance with the client's investment objectives and any investment restrictions applicable to the accounts. In addition, confirmations of transactions for all client accounts are reviewed on a regular basis and a composite report reflecting trading activities on behalf of all clients is also reviewed on a daily basis. The calendar is the main triggering factor, although more frequent reviews may be also be triggered by changes in client circumstances, client request, or unusual market activity.

Joseph and Daniel Garbacz are responsible for reviewing all accounts.

### **Statements and Reports**

Clients are regularly furnished confirmations, portfolio appraisal reports and summaries, and purchase/sales reports. All reports other than confirmations are sent to clients on either a monthly or quarterly basis. Officially brokerage account statements are provided directly by Pershing, LLC. All other reports are provided by The Garbacz Group, Inc. and should be compared against Pershing, LLC brokerage account statements.

A confirmation is sent to a client after each execution of a transaction in the account. It contains the name of the executing broker/dealer, the account name, the name of the security, the quantity purchased or sold and the price per share. The confirmation also reflects various transaction charges such as commissions, taxes, SEC fees, and the market where the order was executed, as well as the trade and settlement date.

Each client receives quarterly portfolio appraisal reports. This report contains the number of shares of each security in the account, cost price and cost value, market prices and market value and their respective percentage of the portfolio, estimated annual income, and yield in terms of market value.

Clients receive performance reviews on a quarterly basis. These contain information as to the market value of the total portfolio, contributions and withdrawals, rate of return and comparisons to various published indices. These reviews reflect the rate of return on a year to date, quarterly, and since inception basis.

Transaction summaries are furnished monthly and/or quarterly at the request of the client. The monthly summaries show the purchases and sales in any one account. This information is recapped on a quarterly basis.

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

- The Garbacz Group, Inc. does not directly or indirectly compensate any person or company for client referrals.
- We receive no other compensation from advisory business other than the fees charged for our services as described at Item 5 and the brokerage relationship benefits from Pershing described at Item 12.

## Item 15 – Custody

Custody, as it applies to investment advisors, has been defined by regulators as having access or control over client funds and/or securities. In other words, custody is not limited to physically holding client funds and securities. If an investment advisor has the ability to access or control client funds or securities, the investment advisor is deemed to have custody and must ensure proper procedures are implemented.

The Garbacz Group, Inc. is deemed to have custody of client funds and securities whenever The Garbacz Group, Inc. is given the authority to have fees deducted directly from client accounts. However, this is the only form of custody The Garbacz Group, Inc. will ever maintain. It should be noted that authorization to trade in client accounts is not deemed by regulators to be custody.

For accounts in which The Garbacz Group, Inc. is deemed to have custody, the Firm has established procedures to ensure all client funds and securities are held at a qualified custodian in a separate account for each client under that client's name. Clients or an independent representative of the client will direct, in writing, the establishment of all accounts and therefore are aware of the qualified custodian's name, address and the manner in which the funds or securities are maintained. Finally, account statements are delivered directly from the qualified custodian to each client, or the client's independent representative, at least quarterly. Clients should carefully review those statements and are urged to compare the statements against reports received from The Garbacz Group, Inc. When clients have questions about their account statements, they should contact The Garbacz Group, Inc. or the qualified custodian preparing the statement.

## Item 16 – Investment Discretion

Upon receiving written authorization from a client, we will maintain trading authorization over client accounts. Upon receiving written authorization from the client, we will implement trades on a **discretionary** basis (which shall be granted by the client in our agreement for services). When discretionary authority is granted, we will have the authority to determine the type of securities and the amount of securities that can be bought or sold for the client's portfolio without obtaining the client's consent for each transaction.

All clients have the ability to place reasonable restrictions on the types of investments that may be purchased in an account. Clients may also place reasonable limitations on the discretionary power granted to our Firm so long as the limitations are specifically set forth or included as an attachment to the client agreement.

## Item 17 – Voting Client Securities

We do not vote proxies on behalf of clients. While there are some investment advisors that will vote proxies and other corporate decisions on behalf of their clients, we have determined that taking on the responsibility for voting client securities does not add enough value to the services provided to clients to justify the additional compliance and regulatory costs associated with voting client securities. Therefore, it is your responsibility to vote all proxies for securities held in accounts managed by our Firm.

Clients will receive proxies directly from their custodian or transfer agent and such documents will not be delivered by our Firm. Although we do not vote client proxies, if you have a question about a particular proxy feel free to contact us.

### **Item 18 – Financial Information**

This item is not applicable to this brochure. The Garbacz Group, Inc. does not require or solicit prepayment of more than \$1200 in fees per client, six months or more in advance. Therefore, we are not required to include a balance sheet for our most recent fiscal year. We are not subject to a financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients. Finally, The Garbacz Group, Inc. has not been the subject of a bankruptcy petition at any time.

## Customer Privacy Policy Notice

We have a long standing policy of protecting the confidentiality and security information it collects about its clients. We do not, and will not, share nonpublic personal information about clients ("Information") with outside third parties without the client's consent, except for the specific purposes described below. This notice has been provided to describe the Information we may gather and the situations under which we may need to share it.

**Why Information is Collected and How it is Used.** We limit the collection and use of information within the Firm to only those individuals associated or employed with us that must have information to provide financial services to clients. Such services include maintaining client accounts, processing transaction requests, financial consultation, and other services described in this Form ADV Part 2A Disclosure Brochure.

**How Information Is Gathered.** The Garbacz Group, Inc. gets most information directly from clients when clients provide information from any of the following sources:

- Applications or forms (for example: name, address, social security number, birth date, assets, income, financial history)
- Transactional activity in a client account (for example: trading history and account balances)
- Information services and consumer reporting sources (for example: to verify your identity or to assess your credit history)
- Other sources with client's consent (for example: your insurance professional, attorney, or accountant)

**How Information Is Protected.** Our employees and affiliated persons are required to protect the confidentiality of Information and to comply with the advisor's stated policies. They may access information only when there is an acceptable reason to do so, such as to service accounts or provide financial services. Employees who violate the advisor's Privacy Policy are subject to disciplinary action, up to and including termination from employment. We also maintain physical, electronic, and procedural safeguards to protect information, which comply with applicable SEC, state, and federal laws.

**Sharing Information with Other Companies Permitted Under Law.** We do not disclose information obtained in the course of our practice except as required or permitted under law. Permitted disclosures include, for instance, providing information to unrelated third parties who need to know such Information in order to assist us with providing services to clients. Unrelated third parties may include broker/dealers, mutual fund companies, insurance companies, and the custodian with which client assets are held. In such situations, we stress the confidential nature of information being shared.

**Former Customers.** Even if we cease to provide a client with financial products or services, this Privacy Policy will continue to apply to the client as we continue to treat all former clients' nonpublic information with strict confidentiality.