



D.B.A. OF  
HENSLER & ASSOCIATES WEALTH MANAGEMENT, LLC

## **Client Disclosure Brochure**

*(Part 2A of Form ADV)*

**04/18/2018**

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**This Brochure provides information about the qualifications and business practices of Hensler & Associates Wealth Management, LLC, d.b.a. Sapphire Blue Investment Partners ("Sapphire Blue"). If you have any questions about the contents of this Brochure, please contact Andy Armstrong, Chief Compliance Officer at 513-832-5385 or by email at [Andrew.Armstrong@dinsmorecomplianceservices.com](mailto:Andrew.Armstrong@dinsmorecomplianceservices.com).**

**The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Sapphire Blue is a registered investment adviser. Registration as an investment adviser does not imply any level of skill or training.**

**Additional information about Sapphire Blue is available on the SEC's web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Item 2      Material Changes**

This is the initial Form ADV Part 2A (the “Brochure”) of Sapphire Blue for provision to clients. Therefore, there are no Material Changes to report in this Item 2.

**Important Information:** Throughout this document Sapphire Blue will also be referred to as “Sapphire Blue,” the “Firm,” “our,” “we” or “us.” These terms are utilized for the reader’s ease of use while reviewing the Brochure and are not meant to imply the Firm is larger than it may be at the time of publication. The client or prospective client may be also referred to as “you,” “your,” etc., and refers to a client engagement involving a single person as well as two or more persons or an organization. The term “advisor” and “adviser” are used interchangeably where accuracy in identification is necessary (URLs, etc.).

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## **Item 4    Advisory Business**

### **Firm Description and Principal Owners**

Sapphire Blue is an SEC registered investment adviser with an office in Fenton, Michigan. Fred Hensler is Sapphire Blue's President. Tracy Hensler is the Firm's Chief Operations Officer. Sapphire Blue is wholly owned by Sapphire Blue Investment Partners, Inc., which is wholly owned by Fred and Tracy Hensler. 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 that you may use in your decision to hire us or continue a professional relationship with us. This Brochure provides information about our qualifications and business practices.

### **Types of Advisory Services**

#### **Comprehensive Portfolio Management**

Our comprehensive portfolio management services encompass asset management as well as providing financial planning/financial consulting to clients. It is designed to assist clients in meeting their financial goals through the use of financial investments. We conduct at least one, but sometimes more than one meeting (in person if possible, otherwise via telephone conference) with clients in order to understand their current financial situation, existing resources, financial goals, and tolerance for risk. Based on what we learn, we propose an investment approach to the client. We may propose an investment portfolio, consisting of exchange traded funds, mutual funds, individual stocks or bonds, alternative investments, limited partnerships or other securities. Upon the client's agreement to the proposed investment plan, we work with the client to establish or transfer investment accounts so that we can manage the client's portfolio. Once the relevant accounts are under our management, we review such accounts on a regular basis and at least annually. We may periodically rebalance or adjust client accounts under our management. If the client experiences any significant changes to his/her financial or personal circumstances, the client must notify us so that we can consider such information in managing the client's investments.

Through the d.b.a. Physicians Wealth Management Services LTD Sapphire Blue provides comprehensive portfolio management services to members of the medical community.

#### **Retirement Plan Consulting**

Sapphire Blue offers non-discretionary advisory services to 401K and other qualified retirement plans ("Plans"), which may include, depending on the needs of the Plan client, recommending investment options for plans to offer to participants, ongoing monitoring of a plan's investment options, assisting plan fiduciaries in creating and/or updating the plan's written investment policy statements, working with plan service providers, and providing general investment education to plan participants.

**Non-Discretionary Investment Advisory Services:** When serving in a non-discretionary investment advisory capacity for a Plan, Sapphire Blue is in the status defined by section 3(21) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). As a non-discretionary investment adviser, Sapphire Blue assumes no fiduciary responsibility for the completion of an investment policy statement or any aspect of the definition, selection, maintenance or replacement of any Plan investment options. In this non-discretionary role Sapphire Blue provides information to the Plan sponsor/trustees regarding investment option style parameters and performance reporting. The Plan sponsor/trustees exercise full authority over the selection of Plan investment options and may, or may not, utilize the information provided by Sapphire Blue as part of their decision making process.

**Other Services for Employee Benefit Plans:** As part of providing the discretionary and non-discretionary investment services to Plans, Sapphire Blue may provide certain information and services to the Plan and the Plan sponsor/trustees. These other services are designed to assist the Plan sponsor/trustees in meeting their management and fiduciary obligations to the Plan. The other services may consist of the following:

- Assist with platform provider search and Plan set-up;
- Plan review;
- Quarterly investment monitoring;
- Fiduciary compliance;
- Participant communication and education;
- Plan fee and cost review;
- Acting as third party service provider liaison;
- Plan participant education and communication;
- Plan benchmarking;
- Assist with Plan conversion to new vendor platform; and
- Assistance in Plan merger.

### **Financial Planning and Consulting**

We provide a variety of financial planning and consulting services to individuals, families and other clients regarding the management of their financial resources based upon an analysis of the client’s current situation, goals, and objectives. Generally, such financial planning services will involve preparing a financial plan or rendering a financial consultation for clients based on the client’s financial goals and objectives. This planning or consulting may encompass one or more of the following areas: Investment Planning, Estate Planning, Charitable Planning, Education Planning, Corporate and Personal Tax Planning, Cost Segregation Study, Corporate Structure, Real Estate Analysis, Mortgage/Debt Analysis, Insurance Analysis, Lines of Credit Evaluation, Business and Personal Financial Planning.

Our written financial plans or financial consultations rendered to clients usually include general recommendations for a course of activity or specific actions to be taken by the clients. For example, recommendations may be made that the clients begin or revise investment programs, create or revise wills or trusts, obtain or revise insurance coverage, commence or alter retirement savings, or establish education or charitable giving programs. It should also be noted that we refer clients to an accountant, attorney or other specialist, as necessary for non-advisory related services. For written financial planning engagements, we provide our clients with a written summary of their financial situation, observations, and recommendations. For financial consulting engagements, we usually do not provide our clients with a written summary of our observations and recommendations as the process is less formal than our planning service. Implementation of the recommendations will be at the discretion of the client.

### **Tailoring of Advisory Services**

Sapphire Blue provides investment advisory services specific to the needs of each client. The selection of investment vehicles may vary from one client to another. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, Sapphire Blue will allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). You may, at any time, impose reasonable restrictions, in writing, on our services.

### **Wrap Fee Program**

Sapphire Blue does participate in a wrap fee program as both a sponsor and a portfolio manager. Under a typical wrap-fee program, a client will pay the sponsor a single fee for management, brokerage, custody and other services provided under the program. Wrap fee program accounts for Sapphire Blue clients are generally subject to an investment style or client directive that entails a trading volume that makes a wrap fee program fee structure efficient for that client. Sapphire Blue receives fees for the services it provides to its wrap fee program clients. For more information regarding Sapphire Blue's wrap fee program you can refer to Sapphire Blue's wrap fee program brochure (Form ADV Part 2A Appendix 1).

### **Information Received From Clients**

Sapphire Blue will not assume any responsibility for the accuracy of the information provided by the client. We are not obligated to verify any information received from the client or other professionals (e.g., attorney, accountant, etc.) designated by client, and Sapphire Blue is expressly authorized by the client to rely on such information provided. Under all circumstances, clients are responsible for promptly notifying Sapphire Blue in writing of any material changes to the client's financial situation, investment objectives, time horizon, or risk tolerance. In the event that a client notifies Sapphire Blue of changes in the client's financial circumstances or investment objectives, we will review such changes and recommend any necessary revisions to the client's portfolio.

## **Other Important Information**

Sapphire Blue and its investment advisor representatives will use its best judgment and good faith effort in rendering its services. Sapphire Blue cannot warrant or guarantee the achievement of a planning goal or any particular level of account performance or that your account will be profitable over time. Although Sapphire Blue generally recommends long-term investment strategies, we may recommend various short-term investment strategies to accommodate certain client goals or objectives. Past performance is not necessarily indicative of future results.

Sapphire Blue does not provide legal or tax advice, make loans, or offer accounting services. Neither Sapphire Blue, nor any of its representatives, serves as an attorney or accountant. Certain personnel of Sapphire Blue are licensed insurance agents and may from time to time recommend insurance products from various insurance companies. In addition, certain personnel of Sapphire Blue are investment adviser representatives of Summit Financial Group, Inc., a registered investment adviser and/or are registered representatives of Summit Brokerage Services, Inc., a FINRA member broker-dealer. Summit Financial Group and Summit Brokerage Services are not affiliated with Sapphire Blue.

Sapphire Blue may recommend other professionals (e.g. lawyers, accountants, bankers, other advisors, etc.) at your request. You are under no obligation to engage the services of any Sapphire Blue representatives as an insurance agent, registered representative of Summit Brokerage Services, investment adviser representative of Summit Financial Group or any other such recommended professional. Please note that if you engage a Sapphire Blue representative in any of the aforementioned capacities or any such recommended professional, and a dispute arises thereafter relative to such engagement, you agree to seek recourse exclusively from and against the engaged professional. Where appropriate, advisors of Sapphire Blue will work with your other professionals to ensure effective execution of suggested strategies.

## **Assets Under Management**

Being a newly formed adviser, as of the date of this Brochure Sapphire Blue does not have any client assets under management.

## **Item 5 Fees and Compensation**

### **How We Are Compensated for Our Advisory Services**

Sapphire Blue charges fees based on a percentage of assets under management, as well as fixed fees, depending upon the particular types of services to be provided. The specific fees charged by Sapphire Blue for services provided will be set forth in each client's agreement.

## **Comprehensive Portfolio Management**

Comprehensive portfolio management services clients are charged a quarterly fee based on the accounts assets under management as of the close of business on the last day of the preceding calendar quarter. Comprehensive portfolio management services fees are calculated and paid quarterly in advance based on the following annual percentages (which are NOT applied on a blended basis):

<b>Assets under Management</b>	<b>Annual Percentage of assets charge:</b>
\$0 to \$500,000	1.25%
\$500,001 to \$5,000,000	1.10%
\$5,000,001 to \$10,000,000	0.85%
Over \$10,000,000	negotiable

For operational efficiency, Sapphire Blue generally requires clients to have their advisory fees debited from their custodial account(s). In some situations, this may require setting up an account specifically for debiting fees. Both our client advisory agreement and the custodial/clearing agreement may authorize the custodian to debit the account for the amount of our advisory fee and to directly remit that advisory fee to us in compliance with regulatory procedures.

## **Retirement Plan Consulting**

For the provision of the advisory services for Plans described in Item 4, Sapphire Blue is compensated based on a percentage of assets under management, which includes all assets that are assets of any Plan client. In addition, the other services that may be provided by Sapphire Blue to Plan clients described above in Item 4 are included within the percentage of assets under management fee. There is no separate fee charged by Sapphire Blue for these other services.

The annualized fee for the advisory services provided by Sapphire Blue, which is inclusive of other services for Plans listed above in Item 4, vary between 0.25% and 1.00% depending upon the Plan, market value of the Plan assets and scope of services provided by Sapphire Blue. Under certain circumstances, a flat fee may also be charged.

Sapphire Blue's fees are generally payable and collected as determined by each Plan client and each Administrator (as defined in Item 12). At the option of the Plan client and the Administrator (as defined in Item 12), the fees may be billed in advance, or may be billed in arrears. Sapphire Blue and a Plan may agree on a fee payment schedule. The fees collected may be based upon the average daily market value of the assets of the Plan during such period, the balance of the assets of the Plan on the last day of such period, or any other mechanism agreed upon by Sapphire Blue, the Plan client, and the Administrator. As part of its agreement with Sapphire Blue, the Plan will instruct the Administrator to automatically deduct and pay the market value fees due and owing Sapphire Blue at the end of each payment period. Additionally, in some instances where Sapphire Blue has previously agreed in writing to a certain advisory arrangement,



including a flat fee arrangement, billing will be according to the terms specified in writing and may differ from the general payment terms listed above.

In determining a Plan menu of investment options, or otherwise in providing non-discretionary advice regarding Plan investment options, Sapphire Blue primarily recommends no-load mutual funds and/or retirement plan class shares that do not carry any sales loads, revenue share or 12b-1 fees. However, in any instance where a fund may be included in a Plan that has any type of load, revenue share or 12b-1 fee, Sapphire Blue does not accept any of these charges in payment of its fees.

### **Financial Planning and Consulting**

Clients that are receiving financial planning and consulting services only are charged a fixed fee that is dependent upon the complexity of a client's plan and services provided. The fee to be charged for financial planning services is agreed to by Sapphire Blue and the client and are clearly outlined in the financial planning agreement.

### **Negotiability of Fees**

Although Sapphire Blue believes that its fees are competitive, clients should understand that lower fees for comparable services may be available from other sources and firms. Generally Sapphire Blue's fees are not negotiable. However, Sapphire Blue reserves the right to negotiate fees under certain circumstances and at the sole discretion of Sapphire Blue.

### **Other Types of Fees and Expenses**

The fees charged by Sapphire Blue do not include charges imposed by third parties such as custodian fees and mutual fund fees and expenses. Client assets may also be subject to transaction costs, retirement plan administration fees (if applicable), deferred sales charges on mutual funds initially deposited in the account, 12b-1 fees, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Furthermore, in instances where Sapphire Blue utilizes a third party manager for a client's account, the client's assets allocated to that third party manager will be subject to an advisory fee charged by that third party manager.

Client assets invested in mutual funds will be subject to certain fees and expenses imposed directly by mutual funds to their shareholders, which are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the sponsor also imposes sales charges, a client may pay initial or deferred sales or surrender charges. These fees and expenses are separate from and in addition to the fees charged by Sapphire Blue. Accordingly, the client should review the fees charged by any mutual funds in which the client's assets are invested, together with the fees charged by Sapphire Blue, to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

Additionally, clients may incur brokerage commissions and other execution costs charged by the custodian or executing broker-dealer in connection with transactions for a client's account. Clients should further understand that all custodial fees and any other charges, fees and commissions incurred

in connection with transactions for a client's account will be paid out of the assets in the account and are exclusive of and in addition to the fees charged by Sapphire Blue. We do not share in any of these fees but we may elect at our option, to bear the cost of certain transactions under certain circumstances. Please refer to Item 12 of this Brochure entitled "Brokerage Practices" for additional important information about the brokerage and transactional practices of Sapphire Blue.

In regards to Plan clients, the Plan and/or its participants will also be subject to fees charged by the Administrator, which may include an asset based charge at the Plan level, specific fees for services such as Plan loans and withdrawals, transaction based fees and such other fees and expenses as agreed to by the Plan and the Administrator. Sapphire Blue does not receive any portion of these fees.

### **Terminations and Refunds**

In the event that you wish to terminate our services, we will refund the unearned portion of our advisory fee to you. You need to contact us in writing and state that you wish to terminate our services. Upon receipt of your letter of termination, we will initiate the process to close out your account and issue a pro-rata refund of unearned advisory fees, if any. For fees charged in arrears, you will be invoiced for all services provided.

### **Compensation for Sales of Securities, Advisory Services and Insurance**

As described in Item 4, certain representatives of Sapphire Blue, in their individual capacities, also are investment adviser representatives of Summit Financial Group and/or are registered representatives of Summit Brokerage Services. In these capacities, these individuals may provide advisory services or transact in various types of securities or investment products and may receive separate and typical compensation for doing so.

In addition, certain representatives of Sapphire Blue are licensed insurance agents for various insurance companies and carriers. In such a capacity they may offer insurance products as a recommendation to a client's financial plan and receive a normal and customary commission and other indirect benefits as a result of such a purchase.

Clients should be aware that the practice of accepting commissions for the sale of securities and insurance products creates an incentive to recommend securities and insurance products based on the compensation received. To mitigate this potential, Sapphire Blue representatives as fiduciaries will act in clients' best interests at all times. Please refer to Item 10 below for information regarding these arrangements, along with the conflicts surrounding such and the steps Sapphire Blue has in place to help mitigate the conflicts.

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

Sapphire Blue does not charge performance-based fees (fees based on a share of capital appreciation / growth of the assets of a client, such as a hedge fund), nor do we offer side-by-side management (we do not manage any proprietary investment funds or limited

partnerships). Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

## **Item 7        Types of Clients**

We provide services to the following types of clients:

- Individuals and High Net Worth Individuals;
- Trusts, Estates or Charitable Organizations;
- Retirement Plans; and
- Corporations, limited liability companies and/or other business types.

Currently Sapphire Blue does not have minimum account size requirements for comprehensive portfolio management or retirement plan consulting services, however, Sapphire Blue reserves the right to accept or decline a potential client for any reason in its sole discretion. In addition, the client understands that asset withdrawals may impair the achievement of the client's investment objectives.

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

### **Methods of Analysis and Investment Strategies**

When providing investment advice, we base our analysis on creating a diversified portfolio that is compatible with a client's goals, objectives, risk tolerance and time horizon for investment. Sapphire Blue utilizes primarily equities, mutual funds and exchange traded funds ("ETFs"). For mutual funds and ETFs, Sapphire Blue focuses on allocating among three main asset classes: equities; fixed income; and alternative investments, such as commodities and real estate investment trusts ("REITs"). Sapphire Blue monitors clients' allocations and may reallocate investments in an effort to reduce risk and increase performance. Depending on its due diligence Sapphire Blue may invest significant positions in cash and/or fixed income securities as a possible hedge against market movement which we believe may adversely affect a client's portfolio. In addition, for certain clients Sapphire Blue may utilize alternative investments and/or private funds, i.e. funds subject to a registration exemption under the federal securities laws. Sapphire Blue may also at times utilize third party investment managers who have specialized expertise in certain disciplines when appropriate for the client. Sapphire Blue may sell certain investments for reasons that include, but are not limited to, overvaluation or overweighting of a position, change in the client's investment objectives and risk tolerance, and indications of severe and prolonged market downturns.

Client portfolios are generally diversified to increase the opportunity set to manage the risk associated with investing. Some portfolios may be constructed to suit a particular need and

therefore may be less diversified. Sapphire Blue may utilize the following investment strategies when implementing investment advice given to clients:

Long Term Purchases (securities held at least a year): the intent of most of the securities Sapphire Blue purchases.

Short Term Purchases (securities sold within a year): sometimes result from our investment strategies. Securities sold within a year are caused by actions taken by Sapphire Blue (e.g. objectives met, tax loss harvesting, moving to another more attractively priced security, etc.), or actions taken by others (e.g. mergers and exchanges, instructions from the client, etc.).

Margin Transactions (use of borrowed assets to purchase securities): Margin is only used if so instructed by the client.

Options (contract for the purchase or sale of a security at a predetermined price for a specific period of time): Options and option strategies are rarely used, and only if so approved by the client.

Methods of analysis for securities include fundamental security analysis. Fundamental analysis examines a security's historical and forecasted data. For individual securities, fundamental security analysis involves analyzing financial statements, management, competitive advantages, competitors and markets.

### **Risk of Loss**

Investing in securities involves a significant risk of loss which clients should be prepared to bear. Sapphire Blue's investment recommendations are subject to various market, currency, economic, political and business risks, and such investment decisions may not always be profitable. Clients should be aware that there may be a loss or depreciation to the value of the client's account. There can be no assurance that the client's investment objectives will be obtained and no inference to the contrary should be made.

Generally, the market value of equity stocks will fluctuate with market conditions, and small- stock prices generally will fluctuate more than large-stock prices. The market value of fixed income securities will generally fluctuate inversely with interest rates and other market conditions prior to maturity. Fixed income securities are obligations of the issuer to make payments of principal and/or interest on future dates, and include, among other securities: bonds, notes and debentures issued by corporations; debt securities issued or guaranteed by the U.S. government or one of its agencies or instrumentalities, or by a non-U.S. government or one of its agencies or instrumentalities; municipal securities; and mortgage-backed and asset- backed securities. These securities may pay fixed, variable, or floating rates of interest, and may include zero coupon obligations and inflation-linked fixed income securities. The value of longer duration fixed income securities will generally fluctuate more than shorter duration fixed income securities.

Investments in overseas markets also pose special risks, including currency fluctuation and political risks, and it may be more volatile than that of a U.S. only investment. Such risks are generally

intensified for investments in emerging markets. In addition, there is no assurance that a mutual fund or ETF will achieve its investment objective.

Past performance of investments is no guarantee of future results.

Additional risks involved in the securities recommended by Sapphire Blue may include, among others:

- **Stock market risk**, which is the chance that stock prices overall will decline. The market value of equity securities will generally fluctuate with market conditions. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. Prices of equity securities tend to fluctuate over the short term as a result of factors affecting the individual companies, industries or the securities market as a whole. Equity securities generally have greater price volatility than fixed income securities.
- **Sector risk**, which is the chance that significant problems will affect a particular sector, or that returns from that sector will trail returns from the overall stock market. Daily fluctuations in specific market sectors are often more extreme than fluctuations in the overall market.
- **Issuer risk**, which is the risk that the value of a security may decline for reasons directly related to the issuer, such as management performance, financial leverage, and reduced demand for the issuer's goods or services.
- **Non-diversification risk**, which is the risk of focusing investments in a small number of issuers, industries or foreign currencies, including being more susceptible to risks associated with a single economic, political or regulatory occurrence than a more diversified portfolio might be.
- **Value investing risk**, which is the risk that value stocks may not increase in price, may not issue the anticipated stock dividends, or may decline in price, either because the market fails to recognize the stock's intrinsic value, or because the expected value was mis-gauged. If the market does not recognize that the securities are undervalued, the prices of those securities might not appreciate as anticipated. They also may decline in price even though in theory they are already undervalued. Value stocks are typically less volatile than growth stocks, but may lag behind growth stocks in an up market.
- **Smaller company risk**, which is the risk that the value of securities issued by a smaller company may go up or down, sometimes rapidly and unpredictably as compared to more widely held securities. Investments in smaller companies are subject to greater levels of credit, market and issuer risk.
- **Foreign (non-U.S.) investment risk**, which is the risk that investing in foreign securities may result in the portfolio experiencing more rapid and extreme changes in value than a portfolio that invests exclusively in securities of U.S. companies. Risks associated with investing in foreign securities include fluctuations in the exchange rates of foreign currencies that may affect the U.S. dollar value of a security, the possibility of substantial price volatility as a result of political and economic instability in the foreign country, less

public information about issuers of securities, different securities regulation, different accounting, auditing and financial reporting standards and less liquidity than in the U.S. markets.

- **Interest rate risk**, which is the chance that prices of fixed income securities will decline because of rising interest rates. Similarly, the income from fixed income securities may decline because of falling interest rates.
- **Credit risk**, which is the chance that an issuer of a fixed income security will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that fixed income security to decline.
- **Exchange Traded Fund risk**, which is the risk of an investment in an ETF, including the possible loss of principal. ETFs typically trade on a securities exchange and the prices of their shares fluctuate throughout the day based on supply and demand, which may not correlate to their net asset values. Although ETF shares will be listed on an exchange, there can be no guarantee that an active trading market will develop or continue. Owning an ETF generally reflects the risks of owning the underlying securities it is designed to track. ETFs are also subject to secondary market trading risks. In addition, an ETF may not replicate exactly the performance of the index it seeks to track for a number of reasons, including transaction costs incurred by the ETF, the temporary unavailability of certain securities in the secondary market, or discrepancies between the ETF and the index with respect to weighting of securities or number of securities held.
- **Management risk**, which is the risk that the investment techniques and risk analyses applied by Sapphire Blue may not produce the desired results and that legislative, regulatory, or tax developments, may affect the investment techniques available to Sapphire Blue. There is no guarantee that a client's investment objectives will be achieved.
- **Real Estate risk**, which is the risk that an investor's investments in REITs or real estate-linked derivative instruments will subject the investor to risks similar to those associated with direct ownership of real estate, including losses from casualty or condemnation, and changes in local and general economic conditions, supply and demand, interest rates, zoning laws, regulatory limitations on rents, property taxes and operating expenses. An investment in REITs or real estate-linked derivative instruments subject the investor to management and tax risks.
- **Investment Companies ("Mutual Funds") risk**, when an investor invests in mutual funds, the investor will bear additional expenses based on his/her pro rata share of the mutual fund's operating expenses, including the management fees. The risk of owning a mutual fund generally reflects the risks of owning the underlying investments the mutual fund holds.
- **Commodity risk**, generally commodity prices fluctuate for many reasons, including changes in market and economic conditions or political circumstances (especially of key energy-producing and consuming countries), the impact of weather on demand, levels of domestic production and imported commodities, energy conservation, domestic and foreign governmental regulation (agricultural, trade, fiscal, monetary and exchange control),

international politics, policies of OPEC, taxation and the availability of local, intrastate and interstate transportation systems and the emotions of the marketplace. The risk of loss in trading commodities can be substantial.

- ***Alternative Investments / Private Funds risk***, investing in alternative investments is speculative, not suitable for all clients, and intended for experienced and sophisticated investors who are willing to bear the high economic risks of the investment, which can include:
  - loss of all or a substantial portion of the investment due to leveraging, short-selling or other speculative investment practices;
  - lack of liquidity in that there may be no secondary market for the investment and none expected to develop;
  - volatility of returns;
  - restrictions on transferring interests in the investment;
  - potential lack of diversification and resulting higher risk due to concentration of trading authority when a single adviser is utilized;
  - absence of information regarding valuations and pricing;
  - delays in tax reporting;
  - less regulation and higher fees than mutual funds;
  - risks associated with the operations, personnel, and processes of the manager of the funds investing in alternative investments.
- ***Cybersecurity risk***, which is the risk related to unauthorized access to the systems and networks of Sapphire Blue and its service providers. The computer systems, networks and devices used by Sapphire Blue and service providers to us and our clients to carry out routine business operations employ a variety of protections designed to prevent damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches. Despite the various protections utilized, systems, networks or devices potentially can be breached. A client could be negatively impacted as a result of a cybersecurity breach. Cybersecurity breaches can include unauthorized access to systems, networks or devices; infection from computer viruses or other malicious software code; and attacks that shut down, disable, slow or otherwise disrupt operations, business processes or website access or functionality. Cybersecurity breaches may cause disruptions and impact business operations, potentially resulting in financial losses to a client; impediments to trading; the inability by us and other service providers to transact business; violations of applicable privacy and other laws; regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or other compliance costs; as well as the inadvertent release of confidential information. Similar adverse consequences could result from cybersecurity breaches affecting issues of securities in which a client invests; governmental and other regulatory authorities; exchange and other financial market operators, banks, brokers, dealers and other financial institutions; and other parties. In addition, substantial costs may be incurred by those entities in order to prevent any cybersecurity breaches in the future.

Clients are advised that they should only commit assets for management that can be invested for the long term, that volatility from investing can occur, and that all investing is subject to risk. Sapphire Blue

does not guarantee the future performance of a client's portfolio, as investing in securities involves the risk of loss that clients should be prepared to bear.

## **Item 9        Disciplinary Information**

Sapphire Blue and its employees have not been involved in any legal or disciplinary events related to past or present activities.

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

As mentioned above in Items 4 and 5, certain personnel of Sapphire Blue also are investment adviser representatives of Summit Financial Group, Inc., a registered investment adviser, and/or are registered representatives of Summit Brokerage Services, Inc., a FINRA member broker-dealer. Summit Financial Group and Summit Brokerage Services are under separate ownership from Sapphire Blue. In the capacity of an investment adviser representative of Summit Financial Group and/or as a registered representative of Summit Brokerage Services, such personnel may offer advisory services, securities or alternative investments and receive normal and customary fees or commissions as a result of these transactions. In addition, these individuals will receive additional ongoing 12b-1 fees for mutual fund purchases from the mutual fund company during the period that the client maintains the mutual fund investment. As a result of certain personnel of Sapphire Blue being registered representatives of Summit Brokerage Services, Summit Brokerage Services may have access to certain confidential information (e.g., financial information, investment objectives, transactions and holdings) about clients, even if a client does not establish an account through Summit Brokerage Services. Summit Brokerage Services has this access to information so as to fulfill its regulatory obligations under the rules of the Financial Industry Regulatory Authority ("FINRA") that are applicable to Summit Brokerage Services. If you would like a copy of the Summit Brokerage Services privacy policy, please contact Summit Brokerage Services directly.

Clients should be aware that the receipt of additional compensation itself creates an inherent conflict of interest, and may affect the judgment of these individuals when making recommendations. Sapphire Blue and Summit are separate, nonaffiliated entities. Nevertheless, to the extent that a Sapphire Blue representative recommends the purchase of securities or other investment products where the representative receives commissions for doing so, a conflict of interest exists because the representative may be incentivized to make recommendations based on the compensation received rather than on a client's needs.

Certain personnel of Sapphire Blue also are licensed insurance agents appointed with various life, health and disability insurance companies. There are times when Sapphire Blue personnel recommend the purchase of certain insurance products to Sapphire Blue clients as part of their financial plan. Upon purchase, the Sapphire Blue personnel in his/her capacity as an insurance agent will receive normal and customary commissions.

Sapphire Blue has adopted certain procedures designed to mitigate the effects of these conflicts. As part of our fiduciary duty to clients, the Firm and our representatives endeavor at all times to put the



interests of the clients first, and recommendations will only be made to the extent that they are reasonably believed to be in the best interests of the client. Additionally, the conflicts presented by these practices are disclosed to clients through this Brochure, client agreement and/or verbally prior to or at the time of entering into a client agreement. Clients are not obligated to implement recommended transactions through any Sapphire Blue representative or any particular broker-dealer or insurance carrier. Clients have the option to purchase any recommended investment and insurance products or services through brokers, carriers, or agents other than Summit or any Sapphire Blue personnel.

Sapphire Blue clients should understand that lower fees and/or commissions for comparable services may be available from other broker-dealers, insurance carriers and investment advisers.

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

### **Code of Ethics Summary**

Sapphire Blue has adopted a Code of Ethics ("Code") which establishes standards of conduct for our supervised persons and includes general requirements that such supervised persons comply with their fiduciary obligations to clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of client information. It contains written policies reasonably designed to prevent the unlawful use of material non-public information by the Firm or any of our associated persons. The Code also requires that certain of Sapphire Blue personnel (called "Access Persons") report their personal securities holdings and transactions and obtain pre- approval of certain investments such as initial public offerings and limited offerings.

The Code also requires supervised persons to report any violations of the Code promptly to the Firm's Chief Compliance Officer ("CCO"). Each supervised person receives a copy of the Code and any amendments to it and must acknowledge in writing having received the materials. Annually, each supervised person must certify that he or she complied with the Code during that year.

A complete copy of Sapphire Blue's Code of Ethics is available to any client or prospective client upon request to Andy Armstrong at the contact information provided at the beginning of this Brochure.

### **Participation or Interest in Client Transactions**

It is Sapphire Blue's policy not to enter into any principal transactions or agency cross transactions on behalf of client accounts. Principal transactions occur where an adviser, acting as principal for its own account, buys securities from or sells securities to any advisory client. Agency cross transactions occur where a person acts as an investment adviser in relation to a transaction in which the adviser, or an affiliate of the adviser, acts as broker for both the advisory client and for another person on the other side of the transaction.

Sapphire Blue or individuals associated with Sapphire Blue may buy or sell for their personal account(s) securities or investment products identical to those recommended to or already owned by clients. Alternatively, Sapphire Blue may cause clients to buy a security in which Sapphire Blue or such individuals have an ownership position. Such recommendations will only be made to the extent that they are reasonably believed to be in the best interests of the client. Nevertheless, such practices present potential conflicts of interest. To mitigate these conflicts, the Code outlines the procedures regarding personal trading that must be followed (see details below). Additionally, as part of the Firm's fiduciary duty to clients, the Firm and its supervised persons will endeavor at all times to put the interests of the clients first and at all times are required to adhere to the Code.

### **Personal Trading**

The Firm and its Access Persons may invest personally in securities of the same classes as are purchased for clients and may own securities of the issuers whose securities are subsequently purchased for clients. Sapphire Blue understands that this could create a conflict of interest, where the Access Person's interest may be at odds with the interest of our clients. To help mitigate these conflicts of interest, the Code sets forth certain standards of business and professional conduct regarding the personal trading activities of Access Persons. The following summarizes our procedures for the purchase and/or sales of securities held within personal accounts.

- Sapphire Blue requires quarterly reporting of all personal securities transactions with the exception of certain exempt transactions and securities (such as government securities, open end mutual funds and money market funds). Access Persons, or those persons with a beneficial interest such as immediate family members, may not buy or sell securities for their personal portfolio(s) where their decision is derived in whole, or in part, by material non-public information.
- Security holdings and financial circumstances of clients must be kept confidential.
- Sapphire Blue and its Access Persons may not participate in private placements and initial public offerings (IPOs) without pre-clearance from the CCO.
- Records will be maintained of reportable securities bought or sold by Access Persons and will be reviewed periodically by designated Firm personnel.
- Any individual not in observance of the above may be subject to termination.

## **Item 12 Brokerage Practices**

### **Comprehensive Portfolio Management**

#### **Selecting a Brokerage Firm**

Currently, Sapphire Blue participates in the institutional adviser program offered by TD Ameritrade Institutional, a division of TD Ameritrade, Inc. member FINRA/SIPC/NFA ("TD Ameritrade") and an unaffiliated SEC-registered broker-dealer, and recommends that its comprehensive portfolio management clients custody their assets with TD Ameritrade. TD Ameritrade provides services which include custody of securities, trade execution, clearance and settlement of transactions. Sapphire Blue receives some benefits from TD Ameritrade through its participation in the institutional adviser program. As part of its institutional services,

TD Ameritrade does not charge custodial fees to a client as long as the account's transactions are placed with TD Ameritrade for execution. TD Ameritrade charges a transaction fee/commission per transaction for each client account. All TD Ameritrade fees and charges are fully disclosed on the account statements sent by TD Ameritrade to each client. The commissions and/or transaction fees charged by TD Ameritrade may be higher or lower than those charged by other financial institutions.

Factors considered by Sapphire Blue in recommending TD Ameritrade as custodian for client accounts are based on, but not limited to, the reasonableness of transaction fees charged by TD Ameritrade, product availability, quality of executions, research and other services available to both the client and Sapphire Blue.

While there is no direct link between the investment advice given to clients and our recommendation to use the custodial services of TD Ameritrade, certain benefits are received by Sapphire Blue due to this arrangement that typically are not available to TD Ameritrade retail investors. Please see below for a detailed description of the services and benefits received by us.

There may be times, however, when we evaluate and use an alternative broker-dealer for certain individual transactions, if in our discretion we believe that best execution for such individual transactions could be achieved outside of the client's broker custodian.

#### **Research and Additional Benefits**

As noted above, Sapphire Blue participates in the TD Ameritrade institutional program and generally recommends that comprehensive portfolio management clients use TD Ameritrade as their custodian and broker of record. While there is no direct link between the investment advice given to clients and Sapphire Blue's recommendation to use TD Ameritrade as their custodian, certain benefits are received by Sapphire Blue, due to this arrangement, that are typically not available to TD Ameritrade 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 advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client 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 Sapphire Blue by third party vendors. Many of these services, though not all, may be used to service all or a substantial number of Sapphire Blue's accounts, including accounts not maintained at TD Ameritrade. These products and services may benefit Sapphire Blue but may not benefit our clients' accounts. TD Ameritrade also makes available to Sapphire Blue other services intended to help us manage and further develop our business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, TD Ameritrade may make available, arrange and/or pay for these types of services rendered to Sapphire Blue by independent third parties. TD Ameritrade may discount or waive

fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to Sapphire Blue.

In addition, TD Ameritrade has agreed to reimburse Sapphire Blue clients for any exit and transfer fees imposed by Summit Brokerage Services for any client transferring an account from Summit Brokerage Services to TD Ameritrade. This benefit is being provided by TD Ameritrade only to Sapphire Blue customers transferring from Summit Brokerage Services.

The benefits described above do not depend on the amount of brokerage transactions directed to TD Ameritrade. In addition, there is no corresponding commitment made by Sapphire Blue to TD Ameritrade to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of participation in the program/receipt of benefits. While as a fiduciary, we endeavor to act in our clients' best interests, our recommendation that clients maintain their assets in accounts at TD Ameritrade may be based in part on the benefit to Sapphire Blue of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by TD Ameritrade. The receipt of these benefits may create a potential conflict of interest and may indirectly influence Sapphire Blue's choice of TD Ameritrade for custody and brokerage services.

#### **Brokerage for Client Referrals**

When recommending broker-dealers to clients, the Firm does not consider whether it receives client referrals from a broker-dealer or third party.

#### **Directed Brokerage**

Clients are required to select a broker-dealer as custodian for participation in the advisory programs offered by the Firm. Sapphire Blue recommends that clients utilize TD Ameritrade as the account's custodian/broker-dealer. The arrangements with TD Ameritrade are designed to maximize efficiency and to be cost effective to our clients. Sapphire Blue reserves the right to change the recommended custodians at any time.

Sapphire Blue generally does not permit clients to direct the use of a particular brokerage firm. If a client directs brokerage that client may pay higher brokerage commissions than might otherwise be paid. In addition, clients might lose the benefits of potentially better executions available through bunched transactions submitted to the recommended custodian/broker-dealer.

#### **Order Aggregation**

The transactions for each client account generally will be effected independently, unless Sapphire Blue decides to purchase or sell the same securities for several clients at approximately the same time. Sapphire Blue may (but is not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Sapphire Blue clients' differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. This practice may result in administrative convenience or an overall

economic benefit to the client. Clients may also benefit relatively with better purchase or sale execution prices, lower commission expenses or beneficial timing of transactions or a combination of these and other factors. Sapphire Blue will not receive any additional compensation or remuneration as a result of such aggregation.

Sapphire Blue only combines multiple orders for share of the same securities purchased for discretionary accounts; the Firm does not combine orders for non- discretionary accounts. Non-discretionary accounts may pay different costs than discretionary accounts pay. Clients who enter into non-discretionary arrangements with the Firm may pay higher commissions, fees, and/or transaction costs than clients who enter into discretionary arrangements. Mutual Fund shares do not trade in blocks.

## **Retirement Plan Consulting**

### **Plan Administration Platforms**

Mutual funds are the only investment options for any Plan and Plan participants that are subject to the investment advisory services of Sapphire Blue. Since mutual funds trade at net asset value, which is determined at the daily market close, best execution responsibilities of Sapphire Blue for securities transactions are not a factor. In addition, all transactions are executed on the administration platform utilized by the Plan, rather than by or through any custodian/broker-dealer selected by Sapphire Blue.

Sapphire Blue may, however, recommend various Plan administration platforms for Plan clients and prospective Plan clients. These Plan administration organizations (the "Administrator") provide all of the required plan administration, reporting, recordkeeping and transaction activities necessary for the operation of the Plan. The Plan contracts directly with the Administrator for the provision of the services.

In determining what Administrator to recommend to a Plan Sapphire Blue looks at various factors. These factors include, but are not limited to the following: (i) the Administrator's operational capacities, expertise and experience in providing plan administration services; (ii) the regulatory and litigation history of the Administrator; (iii) the ability of the Administrator to support an open architecture investment selection platform; (iv) the specific characteristics of the Plan and any special administration requirements of the Plan; (v) Plan conversion and participant enrollment services available from the Administrator; and (vi) pricing. Administrators may also make available to Sapphire Blue various research and other services that may assist Sapphire Blue in the providing of its services to Plans or in marketing its services to potential Plan clients. Sapphire Blue may consider the quality and usefulness of those services when recommending an Administrator to a Plan or prospective Plan client. This consideration may be considered to create a conflict of interest on the part of Sapphire Blue.

Sapphire Blue does not have any discretion or authority to choose the Administrator. It is the responsibility of the Plan sponsor/trustees to review the services and qualifications of any Administrator, to make an independent determination as to

whether to engage the Administrator and, thereafter, to enter into an agreement with the Administrator.

#### **12b-1 Fees, Revenue Share and Other Mutual Fund Fees**

In providing non-discretionary advice regarding investment options for a 401k Plan client, Sapphire Blue primarily recommends no-load mutual funds and/or retirement plan class shares that do not carry any sales loads, revenue share or 12b-1 fees. However, in any instance where a fund may be included in a Plan that has any type of load, revenue share or 12b-1 fee, Sapphire Blue does not accept any of these charges in payment of its fees. In any of these instances, Sapphire Blue seeks to have the Administrator rebate any such load or fees to the Plan participants that are holders of any such funds. Ultimately, the method and ability for rebate of these mutual fund fees is dependent upon the capabilities of the Administrator and may be subject to the direction of the Plan sponsor/trustees. Regardless, and as detailed above, Sapphire Blue does not accept any of these fund fees and, therefore, Sapphire Blue is not presented with a conflict of interest in selecting or recommending a fund line-up for a 401k Plan client.

### **Item 13      Review of Accounts**

Account reviews are conducted on a periodic, and no less than annual, basis by our representatives. All clients are advised that it remains their responsibility to advise Sapphire Blue of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with Sapphire Blue on at least an annual basis.

Sapphire Blue may conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections, cash flows into and out of an account, and client request.

Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian. Sapphire Blue may also provide a written periodic report summarizing investment results.

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

#### **Economic Benefits Received**

As noted above in Item 12, Sapphire Blue receives certain support services and/or products from TD Ameritrade and various Administrators. See Item 12 for information regarding these

support services and/or products.

### **Referral Fees**

Currently Sapphire Blue does not utilize, nor pay referral fees to independent solicitors for referral of their clients to the Firm.

### **Other Compensation**

As noted above in Item 10, certain personnel of Sapphire Blue engage in insurance agent activities and registered representative activities for the unaffiliated broker-dealer Summit. See Item 10 for information regarding these individual insurance agent and broker-dealer registered representative activities.

## **Item 15 Custody**

Sapphire Blue does not take custody of your assets, other than its authority to request the deduction and payment of agreed upon management fees from your account(s). Sapphire Blue will have the ability to have its advisory fee for each comprehensive portfolio management services client debited by the custodian on a quarterly basis. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian.

Please Note: To the extent that Sapphire Blue provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by Sapphire Blue with the account statements received from the account custodian. The account custodian does not verify the accuracy of our advisory fee calculation.

## **Item 16 Investment Discretion**

As part of its portfolio management services, Sapphire Blue may be given the authority to exercise investment discretion on behalf of its clients. Sapphire Blue is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. Prior to Sapphire Blue assuming discretionary authority over a client's account, the client is required to execute a client agreement, naming Sapphire Blue as the client's limited power of attorney and agent in fact, granting Sapphire Blue full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account. Our authority to withdraw funds on our own authority is limited to our management fee.

Clients who engage Sapphire Blue on a discretionary basis may, at any time, impose restrictions, in writing, on our discretionary authority (e.g. limit the types/amounts of particular securities purchased for their account, limit or proscribe our use of margin or option strategies, etc.).

## **Item 17      Voting Client Securities**

Sapphire Blue does not accept the proxy authority to vote client securities. Clients will receive proxies or other solicitations directly from their custodian or a transfer agent. In the event that proxies are sent to Sapphire Blue, we will forward them on to you and ask the party who sent them to mail them directly to you in the future. Clients may call, write or email us to discuss questions they may have about particular proxy votes or other solicitations. However, Sapphire Blue will not be deemed to have proxy voting authority solely as a result of providing advice or information about a particular proxy vote to a client.

In addition, clients maintain exclusive responsibility for all legal proceedings or other type events pertaining to their account assets, including, but not limited to, class action lawsuits.

## **Item 18      Financial Information**

Sapphire Blue is not required to disclose any financial information pursuant to this item due to the following:

- A. Sapphire Blue does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance of rendering services;
- B. Sapphire Blue is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts; and
- C. Fred Hensler filed a Chapter 11 bankruptcy petition in the US Bankruptcy Court, Flint, Michigan, Eastern District of Michigan on November 13, 2008. The petition was filed pursuant to the advice of counsel related to the filing of a contested lawsuit by a former employer of Fred Hensler. Specifically, Fred Hensler was advised by his corporate legal counsel to file the petition to thwart any additional action by the former employer. The filing was discharged by the court effective January 21, 2014. All creditors had been made whole prior to the discharge date.