



# CAPITAL FINANCIAL SERVICES, INC.

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FORM ADV PART 2  
Firm Brochure  
3/27/2013

**This brochure provides information about the qualifications and business practices of Capital Financial Services, Inc. If you have any questions about the contents of this brochure, please contact us at 877-814-6379 or [info@cfsbd.com](mailto:info@cfsbd.com).**

**The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

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

**Capital Financial Services, Inc. is a registered investment adviser. Registration with the US Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.**

## Item 2 Material Changes

The last annual update to Capital Financial Services Firm Brochure was filed on March 30, 2012. Since that time Capital Financial Services has not made any material changes to this Brochure.

- Added Privacy Notice (11/5/2013)
- Added SEC Client Verification Letters (11/5/2013)
- Added Principal Trade Procedures (11/5/2013)
- Added FolioFn's trading procedure (11/5/2013)
- Added client is responsible to verify the accuracy of the fee calculation (11/5/2013)
- Added CFS does not participate in soft dollar arrangements (11/5/2013)
- Added list of referral agreements (11/5/2013)
- Added account managers (11/5/2013)

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#### Item 4 Advisory Business

Capital Financial Services, Inc. ("CFS") is a Wisconsin corporation with its principal business office located in Minot, North Dakota. CFS provides asset management, consulting, mutual fund, annuity and variable life selection and reporting services, estate retirement and charitable and comprehensive financial planning services to clients, and is also a securities broker-dealer. Capital Financial Services has been in business since 1980. As of December 31, 2012 CFS managed \$123,477,412. \$95,486,482 was managed on a discretionary basis and \$27,990,930 was managed on a non-discretionary basis. Capital Financial Services has compliance policies and procedures reasonably designed for applicable industry rules. Listed below are the Investment Advisory Services CFS provides.

##### THIRD PARTY RECOMMENDATION SERVICES.

CFS utilizes the Resource II advisory service of its clearing firm RBC Correspondent Services. CFS representatives participate in the Resource II program by recommending appropriate investment advisers from a spectrum of advisers that have been evaluated, prescreened and selected for inclusion in the Resource II program by RBC Correspondent Services to manage the client's assets on a discretionary basis. A CFS Representative works closely with a Resource II client first to analyze and define the client's investment objectives and needs. Then, based on the CFS Representative's understanding of the client's investment objectives, the Representative provides the client with information on investment managers within the Resource II program whose investment philosophy and objectives are compatible with the investment philosophy and objectives of the client. The client then chooses one or more investment managers to provide investment management services with respect to the securities within the client's account. All accounts are managed by the investment manager selected by the client. CFS and RBC Correspondent Services have no discretionary trading authority whatsoever with respect to the accounts. CFS Representatives are also available while Resource II investment management services are being provided to evaluate a selected manager's performance.

Client's pay for the Resource II program by means of a single all-inclusive fee which covers the following services: initial analysis and periodic re-evaluation of client's investment objectives, consulting services provided to select suitable investment advisers to manage the client's assets, the fees and services of each selected investment adviser, periodic account reports, and transaction commissions for all trades processed by selected investment advisers through RBC Correspondent Services. The annual asset-based fee varies based upon total account value. For accounts between \$100,000 - \$250,000 the fee is 1.80% per year payable quarterly; 1.60% for accounts valued between \$250,000 - \$500,000; 1.40% for accounts between \$500,000 - \$1 million; 1.20% for accounts between \$1 million - \$2 million and 1.00% for accounts over \$2 million. For fixed income accounts, the fees range from 1.6% to 0.80%.

Another service that CFS participates in through its clearing firm, RBC Correspondent Services, is the Advisor program. This service is a customized investment advisory program through which clients of CFS may receive nondiscretionary advice regarding investments in no-load or load-waived mutual funds.

The Advisor program is a fee-based program under which the fee paid by the client includes (1) an initial analysis by CFS of the client's investment objectives and needs, with periodic re-evaluations, (2) consulting services provided by CFS and RBC Correspondent Services to select an appropriate mutual fund investment strategy and specific funds to implement the strategy, (3) periodic rebalancing of the account to maintain consistency with the investment strategy, (4) transaction execution services provided by RBC Correspondent Services, and (5) periodic performance evaluations of the account and other account-related services provided by CFS and RBC Correspondent Services..

Advisor program fees are calculated as a percentage of account value. Fees are payable in advance on a quarterly basis and are calculated based on the market value of assets in the managed account on the last business of the proceeding quarter. The first billing is based on the account value at inception date. Fees for the service range from 1.50% for accounts valued between \$25,000 - \$250,000, to 0.70% for accounts valued at more than \$2 million. If a client's account is terminated prior to the last day of the calendar quarter, a refund of the fee, pro-rated for the time services are actually provided, is made.

## CONTINUOUS ASSET MANAGEMENT SERVICES.

CFS provides continuous Asset Management Services to clients wishing to have their assets managed on a discretionary or non-discretionary basis. The service begins by CFS assisting each new client in determining the client's investment objectives. CFS then manages the client's assets in a manner consistent with the objectives. CFS also assists the client in establishing a securities account ("Account") at the brokerage firm designated by the client and then invests and reinvests the client's funds and securities held in the Account. Clients can establish a securities Account at CFS if they so choose.

Besides managing various types of securities for a client, such as preferred stocks, mutual funds, common stocks, bonds, municipal securities, government bonds and fixed and variable annuities, a portion of the securities in a client's account may be held in cash or cash equivalents, including money market mutual funds.

Discretionary Asset Management Services are available to clients having an objective of tax-free income, income, or growth and income. For tax-free income portfolios, CFS Managers will primarily use municipal securities and/or municipal securities mutual funds. For income portfolios, CFS will primarily use corporate bonds, government bonds and/or bond mutual funds. For growth and income portfolios, CFS will primarily use a combination of dividend paying stocks, corporate bonds, government bonds and/or stock and bond mutual funds. Management of these portfolios will take into account whether the portfolio is tax-qualified or non-tax qualified.

A CFS portfolio Manager is inclined to use fundamental analysis when evaluating client securities and recommending purchases and sales based upon the results of the analysis. A Manager may also consider technical market factors before deciding the appropriate action to recommend in a client's account. A Manager may recommend various short and long-term investment strategies and may give advice and take action in the performance of advisory duties to a client which may differ from advice given, or the timing and nature of the action taken, with respect to other client accounts. CFS will make a reasonable effort to follow all investment management restrictions and instructions expressed to CFS by a client.

When CFS places securities transaction orders that are the subject of its Manager's investment recommendations, it usually does so through the broker-dealer selected by the client (which may have been recommended by CFS, or be CFS). The broker-dealer furnishes the client and CFS with a confirmation of each transaction ordered for the client's Account. Monthly securities account statements are also provided to each client.

CFS provides each Asset Management client with a written report quarterly or semi-annually, summarizing the value and nature of assets under management and performance of the Account. Discretionary accounts always receive a report quarterly, while clients receiving non-discretionary services may choose to receive reports either quarterly or semi-annually.

## MUTUAL FUND, ANNUITY AND VARIABLE LIFE SELECTION AND REPORTING SERVICES

In addition to the services described above, CFS provides non-discretionary investment management services having the objective of investing client assets in one or more mutual funds, annuities or variable life investments having investment objectives consistent with the objectives of a client and with the risk tolerances identified by the client.

Mutual Fund, Annuity and Variable Life Selection and Reporting Services begin with CFS analyzing information provided the client pertaining to the client's financial situation and needs. After this analysis, CFS then recommends one or more investments consistent with the client's objectives. A written report identifying the funds in a client's account, each investment's current value and the performance of the account is provided to each client at least semi-annually.

CFS refers clients to a third-party money management firm in return for a portion of the fee.

## FINANCIAL CONSULTING SERVICES

CFS also provides Consulting Services about investments on an hourly or flat fee basis. Consulting Services include, but are not limited to, financial and retirement planning, investment strategy, and analysis of a client's

financial assets with recommendations for the selection and positioning of such assets. Consideration is given to risk tolerance, income needs and short and long-term financial objectives. Consulting Services result in a report being provided to a client which may be in writing if agreed to by the client and CFS. After an initial analysis of the client's financial situation is performed and initial advice provided to a client, CFS makes available ongoing consulting services, also on an hourly fee basis, designed to continue the advisory relationship to implement, update and modify the initial advice provided.

#### COMPREHENSIVE FINANCIAL SERVICES

As an additional service, CFS provides clients with specialized comprehensive financial planning services which differ from other consulting services offered by CFS in that they provide a more in-depth analysis of the client's financial situation and a specialized report. These services include financial position analysis, investment planning, and income tax planning, protection planning, retirement planning, estate planning and business owner planning. These services address the client's financial concerns based on the client's current financial situation and the client's future needs and objectives.

CFS will schedule consultations with the client alone or with the client's attorney or accountant, to discuss the client's needs and objectives. CFS will review and analyze the information provided by the client, summarize the client's financial situation and make specific written recommendations that will address the client's particular concerns and objectives. In most cases, a single written report will be produced. This report will be provided no later than six months from the date of engagement. No on-going services are provided under the comprehensive financial planning service.

#### ESTATE, RETIREMENT AND CHARITABLE CONSULTING SERVICES

In addition to the investment-oriented advisory services described above, CFS also provides clients with broader specialized estate, retirement and charitable consulting services. The purpose of these services is to assist clients with estate plans, retirement planning and charitable contributions to achieve client goals in these areas. The types of advice provided are molded to meet the needs of each client. To the extent necessary, representatives of CFS meet with a client alone, or with the client's attorney or accountant, to discuss such matters as treatment of client assets, the client's estate, retirement or charitable contribution goals, development of an appropriate trust, gifting to family members, coordination of taxation issues and related subjects. The number of meetings with a client is determined in advance between a client and the CFS representative.

Also, the types of reports to be produced as a result of the service are determined in advance between the client and CFS. Reports can include financial statements, current investment position reports, asset allocation reports, insurance lists, cash flow reports, Schedule D worksheets, and others depending on the level of service requested.

#### SEPARATE ROLE AS INSURANCE AGENT

The investment adviser representative in his or her separate capacity as an insurance agent may recommend the purchase of fixed or index-linked annuities, or other fixed life insurance product. The investment adviser representative may receive additional and separate compensation in his or her capacity as insurance agent if the client adopts any recommendations to purchase such insurance or annuity products in connections with the consultation or financial plan

#### LIQUIDATION AND PRODUCT CHARGES

There is the potential for a client to pay a surrender charge due to a recommendation where the products recommended have ongoing expenses associated with such products.

## Item 5 Fees and Compensation

### THIRD PARTY RECOMMENDATION SERVICES FEES

Fees are payable in advance on a quarterly basis and are calculated based on the market value of assets in the managed account on the last business of the proceeding quarter. The first billing is based on the account value at inception date. Resource II accounts are subject to a minimum quarterly fee of \$450 for equity and balanced accounts and \$400 for fixed income accounts. In the Advisor program, clients are not charged for transactions in the account provided it does not exceed the annual trade allotment in any calendar year. Advisor program accounts have an annual trade allotment based on account size. Each transaction above the annual trade allotment will be charged an excessive trading fee at the time each account reaches its anniversary month.

#### Resource II (Equity)

Assets Under Management	Annual Fee
First \$250,000	1.80%
Next \$250,000	1.60%
Next \$500,000	1.40%
Next \$1,000,000	1.20%
Above \$2,000,000	1.00%

#### Resource II (Fixed Income)

Assets Under Management	Annual Fee
First \$250,000	1.60%
Next \$250,000	1.40%
Next \$500,000	1.20%
Next \$1,000,000	1.00%
Above \$2,000,000	0.80%

#### Advisor Program

Assets Under Management	Annual Fee
First \$250,000	1.50%
Next \$250,000	1.30%
Next \$500,000	1.10%
Next \$1,000,000	0.90%
Above \$2,000,000	0.70%

### FEES FOR MANAGEMENT SERVICES

Fees charged by CFS for its Asset Management Service are based upon the value of assets being managed and vary from client to client, depending on whether account reports are prepared quarterly or semi-annually and whether discretion is exercised by CFS. Fees for quarterly report services generally conform with the following fee schedule:

**Quarterly Report Service Fee Schedule (Non-Discretionary)**

Account Asset Value	Quarterly Fee	Annual Fee
On first \$250,000	.3750%	1.50%
On next \$250,000	.3125%	1.25%
On next \$500,000	.2500%	1.00%
Over \$1,000,000	Negotiable	

The fees described above cover CFS's charges for Asset Management Services only. The minimum annual fee is \$700, \$175 quarterly.

All fees due CFS are payable quarterly, after services are provided. The first quarterly fee is prorated based upon the time services were provided during the first billing period. Thereafter, fees are based upon the Account's asset value on the last business day of each three-month billing period. Billing period dates are decided in advance between the client and CFS.

**Quarterly Report Service Fee Schedule (Discretionary)**

**FIXED INCOME PORTFOLIOS**

Investment Value Range	Annual Fee	Quarterly Fee Billed
On first \$1,000,000	.75%	.1875%
On Next \$1,500,000	.65%	.1625%
Over \$2,500,000	.50%	.1250%

**GROWTH & INCOME PORTFOLIOS**

Investment Value Range	Annual Fee	Quarterly Fee Billed
On First \$ 100,000	1.50%	.3750%
On Next \$ 400,000	1.25%	.3125%
On Next \$1,000,000	1.00%	.2500%
On Next \$3,500,000	.75%	.1875%
Over \$5,000,000	.50%	.1250%

The fees described above cover CFS's charges for Discretionary Asset Management Services only. The minimum annual fee is \$400, \$100 quarterly.

All fees due CFS are payable quarterly, after services are provided. The first quarterly fee is prorated based on the time services were provided during the first billing period. Thereafter, fees are based upon the Account's asset value on the last business day of each three-month billing period. Billing period dates are decided in advance between the client and CFS.

Fees for semi-annual report services generally conform with the following fee schedule:

**Semi-annual Report Service Fee Schedule**

Account Asset Value	Semi-Annual Fee	Annual Fee
On first \$250,000	.45%	.90%
On next \$250,000	.30%	.60%
Over \$500,000	.25%	.50%
Over \$1,000,000	.15%	.30%

U.S. Government and municipal securities are billed at .2% per annum and a one-time set-up fee of \$250 is charged at the time an agreement is signed.

The fees described above cover CFS's charges for Asset Management Services only. The minimum annual fee is \$500, \$250 semi-annually.

All semi-annual fees due CFS are payable after services are provided. The first semi-annual fee is prorated based upon the time services are provided during the first billing period. Thereafter, fees are based upon the Account's asset value on the last business day of each six-month billing period. Billing period dates are decided on between a client and CFS.

In determining account value for the purposes of valuing assets, the assets of related accounts may, at the discretion of CFS, be combined for fee calculation purposes. The fee schedule provided to a client may be modified or changed by CFS upon written notice to the client.

If, for any reason, a client decides to terminate a Management Service agreement with CFS, a client may do so by notice to CFS. Fees due CFS for the last billing period are prorated to the date of termination. CFS's advisory fee does not include charges for transaction execution services.

#### FEES FOR MUTUAL FUND, ANNUITY AND VARIABLE LIFE SELECTION AND REPORTING SERVICES.

Fees for Mutual Fund, Annuity and Variable Life Selection and Reporting Services are asset-based and listed below:

Account Asset Value	Semi-Annual Fee	Annual Fee*
On first \$250,000	.375%	.75%
On next \$500,000	.250%	.50%
On next \$250,000	.200%	.40%
Over \$1,000,000	.125%	.25%

\*Minimum annual fee \$500

A one-time account set-up fee of \$250 is paid by each client when an agreement is signed

Fees are based upon the total market value of assets in a client's portfolio on the last day of the six-month period during which services are provided and are payable after services are provided. Clients pay an initial fee that is prorated for the first six months based upon the time services are provided. Thereafter, fees are calculated for successive six-month periods. There is minimum fee of \$500 per year, \$250 per billing period. For purposes of valuing assets, the assets of related accounts may, at the discretion of CFS, be combined for fee calculation purposes. In the event the service agreement is terminated prior to the last day of any period, which can occur by 30 days advance written notice from one party to the other, fees due CFS are prorated for the last billing period to date of termination.

#### FEES FOR FINANCIAL CONSULTING SERVICES

CFS's hourly fee for Consulting Services varies from \$50 to \$500 per hour and depends upon the nature and scope of the advice requested by the client, amount and nature of research required to complete the project and the nature and number of reports requested by the client. A flat fee may also be quoted for particular projects. Prior to engagement, each client signs an agreement which provides an estimate of the total hourly fee for services or provides a flat fee. Clients prepay a portion of the estimated hourly or flat fee before services begin. The balance of the fee is due promptly after services are completed.

Either party may terminate the agreement between CFS and client for Consulting Services at any time by written notice to the other. Any fee due, but not yet paid by a client, is due promptly after termination of the agreement. CFS refunds any portion of a prepaid fee not earned by the firm.



## FEES FOR COMPREHENSIVE FINANCIAL PLANNING SERVICES

Fees for comprehensive financial services are based on an hourly or fixed fee basis. The fixed fee is based on the current gross estate of the client and usually range between \$2,000 and \$15,000. Under the hourly basis the customer is provided with an estimate of the hours needed to provide the service.

Hourly rates range between \$50 and \$500 depending on the personnel involved. A deposit may be required at the time of execution of the agreement. The balance is due and payable upon receipt of the completed written report. The agreement for this service may be terminated by either party upon thirty days advance written notice. The client is liable for all fees which have not been paid upon termination of the agreement. All prepaid fees received from the client, less any fee due for performing comprehensive financial planning services, will be refunded by CFS upon early termination of the agreement.

## FEES FOR ESTATE, RETIREMENT AND CHARITABLE CONSULTING SERVICES

Fees for estate, retirement, and charitable consulting services are based on the value of invested assets under management and are billed quarterly after services are provided. The asset-based fee ranges from .25% to .75%, depending on the number of client meetings and nature and number of services and reports requested by a client. The exact fee is determined and disclosed at the time the client enters into the CFS agreement. Asset-based fees are based upon the value of investments in the client's account as of the end of each calendar quarter. Should the agreement terminate, which can occur upon 30 days advance written notice by a client or CFS, the client is liable to pay all fees due CFS but not yet paid to the date of termination.

## CONSIDERATIONS.

Clients should be aware that for clients having more than \$2 million under CFS' management, or having more than \$2 million of assets subject to any CFS' consulting services, CFS will negotiate the fee.

Clients should be aware that when assets are invested in shares of mutual funds, annuities and variable life products, clients will pay both the direct management fee to CFS for purposes of selecting, monitoring and recommending liquidation of investments, and an indirect management fee through the issuer who pays an investment advisor for management of assets.

Depending on the investment, a client may be able to invest directly with an issuer, with or without incurring sales or advisory management fees. In addition, there are tax effects pertaining to fund share redemptions. Redemptions are taxable events which may accelerate the recognition of capital gains, and frequent redemptions may result in short term, rather than long term, capital gains.

Under the Quarterly Report Service Fee Schedule, the Semi-Annual Report Fee Schedule and Selection and Reporting Services Fee Schedule, fees are based on the account value at the end of the reporting period. However, when withdrawals of managed funds of the lesser of \$10,000 or 10% of the prior reporting period value take place during the reporting period, fees will be based, pro-rata, on the account values for the appropriate time period before and after the withdrawal(s).

Fees for all of CFS services may be negotiated in isolated instances, thus may vary from client to client for similar services.

The decision to accept any recommendation or advice provided by CFS in any of its services is left to the client. Clients are free to implement recommended transactions through broker-dealers and other service providers other than those recommended by CFS and clients are advised to evaluate independently the transaction execution services recommended by representatives, including the reasonableness of transaction prices and commissions.

Each client is responsible to verify the accuracy of the fee calculation. If there is a discrepancy please contact your financial advisor immediately.

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

CFS does not accept performance-based fees or participate in side-by-side management. Performance-based fees are fees that are based on a share of capital gains or capital appreciation of a client's account. CFS's fees are calculated as described in the Fees and Compensation section outlined in Item 5, and is not charged on the basis of a share of capital gains or capital appreciation in your advisory account. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees.

Item 7 Types of Clients

CFS generally provides investment advice to individuals, high net worth individuals, charitable organizations, trusts, estates, corporations or other businesses not listed. CFS offers several different investment programs each with different minimum investment amounts. Your Investment Advisor Representative will provide you with the minimum investment amount based on the program you are interested in.

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

CFS's security analysis methods include Charting, Fundamental, Technical and Cyclical. The main sources of information applicant uses include financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, timing services, annual reports, prospectuses, filings with the Securities Exchange Commission and company press releases. The investment strategies used to implement any investment advice given to clients include long term purchases (securities held at least a year) and short term purchases (securities sold within a year).

Item 9 Disciplinary Information

Registered Investment Advisers are required to disclose all material facts regarding any legal or disciplinary events that are material to a client or prospective client's evaluation of CFS or the integrity of CFS's management. CFS has no material disciplinary events to disclose.

Item 10 Other Financial Industry Activities and Affiliations

In addition to being an investment adviser, CFS is actively engaged in business as a securities broker-dealer. In that capacity, CFS will execute securities transactions for customers, including advisory clients, and receive compensation for doing so. The principal business of the applicant and its principals is processing securities transaction orders for customers.

As described above, CFS is a securities broker-dealer and will recommend that its securities execution services be used in connection with purchasing or selling securities. Thus, when making investment recommendations, CFS and its representatives have a conflict of interest in that each will benefit by receiving commissions from the securities transactions affected through it.

Investment adviser representatives of CFS may also be licensed to sell life and health insurance products ("Agents"). When acting in this separate capacity, the Agent is able to implement recommended insurance, annuity, Medicare supplements, and long-term care insurance products for commissions.

Capital Financial Services Inc. is a wholly-owned subsidiary of Capital Financial Holdings. Aside from common control there is no service or financial arrangements between Capital Financial Holdings, Inc. and Capital Financial Services, Inc.

Capital Financial Services also has several Solicitors' Agreements in place where, through CFS's Investment Advisor Representatives, refers clients to an outside Investment Advisor for investment advisory services. CFS receives a fee for such referrals on the terms and conditions set forth and subject to applicable federal and state laws, rules and regulations. The Investment Advisor firms that CFS has a Solicitor Agreement in place are Voyager

Capital Management LLC, BTS Asset Management, Highland Investment Advisors, LLC, CLS Investment Firm, LLC, ITS Asset Management, L.P., Fairfax Global Markets, LLC, Portfolio Strategies Inc., Genworth Financial Wealth Management, and Ameritas Investment Corp.

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

CFS is registered as an investment adviser with the Securities and Exchange Commission pursuant to the provisions of Section 203 of the Investment Advisers Act of 1940. CFS is dedicated to providing effective and proper professional investment management services to a wide variety of institutional and individual advisory clients. CFS's reputation is a reflection of the quality of our employees and their dedication to excellence in serving our clients. To ensure these qualities and dedication to excellence, our employees must possess the requisite qualifications of experience, education, intelligence, and judgment necessary to effectively serve as investment management professionals. In addition, every employee is expected to demonstrate the highest standards of moral and ethical conduct for continued employment with CFS.

The SEC and the courts have stated that portfolio management professionals, including registered investment advisers, have a fiduciary responsibility to their clients. In the context of securities investments, fiduciary responsibility should be thought of as the duty to place the interests of the client before that of the person providing investment advice, and failure to do so may render the adviser in violation of the anti-fraud provisions of the Advisers Act. Fiduciary responsibility also includes the duty to disclose material facts that might influence an investor's decision to purchase or refrain from purchasing a security recommended by the adviser or from engaging the adviser to manage the client's investments. The SEC has made it clear that the duty of an investment adviser not to engage in fraudulent conduct includes an obligation to disclose material facts to clients whenever the failure to disclose such facts might cause financial harm. An adviser's duty to disclose material facts is particularly important whenever the advice given to clients involves a conflict of the adviser and its clients.

CFS strives to comply with applicable laws and regulations governing our practices. Our Code of Ethics includes guidelines for professional standards of conduct for our Associated Persons. Our goal is to protect our clients interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with our clients. Each employee is expected to demonstrate the highest standards of moral and ethical conduct and to understand that there is a fiduciary responsibility to place the interests of our clients before the employee's own interest. Access persons must report his/her personal securities holdings annually as well as submit a Personal Securities Trading Report to the CCO each calendar quarter listing all securities transactions executed during that quarter. The CCO will review each report for any evidence of improper trading activities or conflicts of interest by the Access Person.

A "conflict of interest" occurs when a Covered Officer's private interest interferes with the interests of integrity. Certain conflicts of interest arise out of the relationships between Covered Officers and Capital Financial Holdings "CFH". A conflict situation can arise when an employee, officer or director takes actions or has interests that may make it difficult to perform his or her work for the Company objectively and effectively. Conflicts of interest also arise when an employee, officer or director, or a member of his or her family, receives improper personal benefits as a result of his or her position in the Company. This Code does not, and is not intended to, repeat or replace existing programs and procedures, and such conflicts fall outside of the parameters of this Code.

CFH's Audit Committee (the "Committee") or in their discretion, CFH's legal counsel, is responsible for applying this Code to specific situations in which questions are presented under it and has the authority to interpret this Code in any particular situation. Any approvals or waivers sought by the Principal Executive Officer will be considered by the Committee. In determining whether to waive any of the provisions of this Code, the Committee will consider whether the proposed waiver (1) is prohibited by the Code; (2) is consistent with honest and ethical conduct; and (3) will result in a conflict of interest between the Covered Officer's personal and professional obligations to CFH. The Committee will take all appropriate action to investigate any potential violations reported to them.

A full copy of the CFS Code of Ethics is available upon request by contacting John Carlson, Chief Compliance Officer, at 701-837-9600.

## Item 12 Brokerage Practices

CFS may recommend securities broker-dealers and other firms CFS knows can provide clients with products and services needed to implement CFS's recommendations in a timely and efficient manner.

When providing discretionary asset management services, the firm is granted discretionary trading authority to select securities, effect transactions and select brokers. The firm will evaluate various investment alternatives and may choose any investments from no-load mutual funds, stocks, ETF's, fixed income products and annuities when making recommendations to clients. CFS will usually place no-load mutual fund orders with The Vanguard Group, a firm CFS believes provides efficient executions and account report services. The Vanguard Group imposes a nominal transaction fee for mutual funds. CFS also utilizes Folio Institutional or RBC Correspondent Services to manage our clients' investments. Folio Institutional and RBC Correspondent Services delivers a fully integrated, cost effective platform designed to help our representatives manage our clients' investments. Folio Institutional and RBC Correspondent Services provides efficient client management, custodial, and reporting services.

Folio Institutional, RBC Correspondent Services, and The Vanguard Group, as broker of record, carries client accounts on its records, processes transactions ordered by CFS representatives, provides computer access to CFS for customer positions and provides quotes and data needed by CFS for its reports to clients. These services are provided to CFS at minimal cost to CFS. In return for its services, Folio Institutional, RBC Correspondent Services and The Vanguard Group receive various asset-based fees from the issuers of the mutual funds for being the broker of record for client accounts it services. Although a client is not obligated to utilize the services of Folio Institutional, RBC Correspondent Services or The Vanguard Group, and may choose any other broker-dealer for custody and other services, CFS believes that use of Folio Institutional, RBC Correspondent Services or The Vanguard Group is a convenient means for obtaining efficient transaction executions, account references and reporting services for the various investment positions. However, clients should be aware that receipt of such services at minimal cost also creates an inducement and conflict of interest for CFS since referring clients to any other brokerage firm may result in higher reporting and overhead costs to CFS. Clients should also be aware that CFS is dependent upon the software and download capabilities of Folio Institutional, RBC Correspondent Services or The Vanguard Group when providing services to clients.

FolioFn conducts their trading through Window Trades. On a typical day when the market is open for the entire day, FolioFn will usually conduct two window trades. If the market is open less than a full day they usually conduct one window trade. If you place a trade after the last window trade closes, your trade will be executed during the first window on the next trading day. FolioFn also may provide additional window trades for very large customers whose trading might otherwise adversely affect other customers' trades.

In a window trade, orders are submitted throughout the day until the window closes that are then filled after the window closes. After the window closes, FolioFn will either forward such orders in an aggregated format to their market centers for execution or they will begin to match orders from buyers and sellers. If FolioFn matches orders and they have a successful match between your order and another order (full or partial), we will fill your order internally between the price to buy and sell, otherwise known as the bid/ask price spread. Where FolioFn cannot match your order, or if they determine not to match orders generally, FolioFn will either forward your order to market centers for execution, or, for odd lots or fractional shares, they may execute unmatched orders using FolioFn's own inventory of securities or add to those orders from their own inventory and forward the orders to market centers for execution. The orders sent to market centers for execution and the orders matched internally are then reviewed and priced to ensure that all buyers in a security receive the same execution price and all sellers in a security receive the same execution price.

The process of closing the window, matching the orders internally if FolioFn determines to do so, forwarding unmatched orders to market centers for execution or executing them against FolioFn's own inventory (for odd lots or fractional shares), pricing all the orders after execution, and posting the orders to your account frequently takes from one to two hours and can take longer. You understand and agree that in some unusual instances the morning window may not be fully posted until after the afternoon window closes, and in that event you would not be able to place a subsequent order in the afternoon window (because a subsequent order cannot be placed while an earlier order is still posting).

If a client directs CFS to effect transactions through a particular broker-dealer, including CFS, CFS will do so. However, such an instruction may have implications to the client. The instruction may cause the client's account to incur transaction costs and commissions that may be higher than if the instruction had not been given. Also, such a restriction will also limit CFS' ability to consider the judgmental factors described above when recommending a broker-dealer and may limit CFS' ability to batch client orders with those of other clients to process combined orders through a single broker-dealer to obtain best price and/or execution.

Capital Financial Services shall engage in principal transactions only if the client sends a Letter Authorizing Adviser to Engage in Principal Transaction with the Client or the transaction is in the best interest of the client.

#### Item 13      Review of Accounts

All Financial Management and Mutual Fund Selection accounts will be reviewed at least twice a year. Non-discretionary Asset Management, Discretionary Asset Management, Mutual Fund and estate retirement & charitable accounts will be reviewed at least four times a year. Reviews can be performed by John Carlson, Gary Martin, Randall Behnke, Ronald Kerher, Jason Erickson, Gary Warner or John Jay John, who will serve as account managers. Special reviews may be conducted upon the occurrence of special events with respect to the economy in general, special industries or securities of a company. Reviews of accounts receiving estate, retirement and charitable consulting services occur in the frequency mutually agreed upon between a client and CFS before services begin.

The frequency of reports to clients is dependent upon the nature of the account. Under the Financial Management Agreement and the Mutual Fund Selection Service Agreement, written reports will be provided at least every six months. Under the Non-discretionary Asset Management Agreement, Discretionary Asset Management, and the Mutual Fund Agreement reports will be provided at least every three months. Under the Financial Consulting Agreement and Comprehensive Financial Planning Agreement, clients will receive one written report. Subsequent reports will be completed upon request. Reports to accounts receiving estate, retirement and charitable consulting services vary by type and frequency based upon the level of service agreed to prior to services beginning.

#### Item 14      Client Referrals and Other Compensation

CFS does not receive any compensation from any third party in connection with providing investment advice to clients nor does CFS compensate any individual or firm for client referrals. CFS also does not participate in any soft dollar arrangements.

##### OTHER COMPENSATION

CFS is registered as a securities broker-dealer and, as such, receives compensation for securities transactions affected through the firm. The firm receives commissions for effecting transactions which may be higher or lower than a client may obtain elsewhere. The firm may also receive continuing "12b-1" fees from mutual fund issuers based upon the value of fund shares held in a customer's CFS securities account. All commissions and fees received by CFS are shared with CFS securities representatives processing the orders.

Advisor and its Investment Advisor Representative ("IAR") in their separate capacity as an insurance agency and agent receive commissions for the recommendation/sale of annuities and other insurance products. Certain insurance companies may offer incentives in addition to the standard compensation to Advisor and IAR acting in their separate capacities as insurance agents if Advisor's IAR sells a particular annuity or insurance product during a brief window of time (also known as a "fire sale"). Moreover, certain insurance companies may offer Advisor's IAR acting in his separate capacity as an insurance agent additional incentive compensation such as vacation trips for meeting a sales goal associated with the insurance agent's overall sale of a particular annuity offered by that insurance company. Advisor's IAR acting in his separate capacity as an insurance agent may also utilize a third-party insurance marketing organization ("IMO"). The IMO may share with Advisor's IAR acting in a separate capacity as an insurance agent a portion of the overrides that the IMO receives from the insurance company for the IMO's wholesaling activities associated with the sale of an annuity by the insurance agent. The IMO may also offer special incentive compensation such as vacation trips to Advisor's IAR acting in his separate capacity as an insurance agent if the

insurance agent meets certain overall sales goals by placing annuities and/or other insurance products through the IMO. The receipt of these various forms of compensation may affect the judgment of the IAR when recommending particular annuity or insurance products to its clients.

A client should be aware that the receipt of commissions and additional incentive compensation itself creates a conflict of interest and may affect the independent judgment of IAR when making recommendations about annuities and insurance products in general or a particular annuity or insurance product offered by a certain insurance company or through an IMO.

#### Item 15 Custody

CFS does not have custody of client funds or securities. All client funds are held with one of our authorized custodians. Client funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian.

#### Item 16 Investment Discretion

CFS manages client accounts on both a discretionary and non-discretionary basis. Trades for securities may be entered for execution only if the firm has received prior written authorization from the client for such transactions. Evidence of the firm's authority to manage a client's account on a discretionary basis will be documented by the client's signing the appropriate Written Agreement. All written authority granted to the firm by the client will be restricted to "limited trading authority", giving the representative the power to only purchase and sell securities for the account. At no time will the firm or any of its associates enter into any written or verbal agreement or understanding with a client that gives the associate "full trading authority" over the account since that term may be interpreted as granting authority to withdraw funds and securities from a client's account.

Representatives are not permitted to enter any order for the purchase or sale of securities for any non-discretionary account without first consulting with and receiving the client's approval for such transaction. It is the firm's policy to closely monitor the occurrences of such breaches of policy and representatives who execute such unauthorized trades may be subject to significant disciplinary action, including termination.

#### Item 17 Voting Client Securities

CFS does not vote proxies on behalf of our clients. If a client owns shares of common stock or mutual funds, they are responsible for exercising their right to vote as a shareholder. In most cases, the client will receive proxy materials directly from the account custodian. In the event CFS were to receive any proxy materials we would forward them directly to the client.

#### Item 18 Financial Information

CFS is not required to provide financial information because CFS does not:

- Require prepayment of more than \$1,200 in fees per client, six months or more in advance
- Take custody of client funds or securities, or
- Have a financial commitment that would impair CFS's ability to meet contractual and fiduciary commitments to our clients and CFS has not been the subject of a bankruptcy proceeding.

#### Other Information

The U.S. Securities and Exchange Commission ("SEC") conducts examinations of the books and records of securities firms and investment advisers that are regulated by the SEC. As part of these examinations, they may request independent confirmations of account balances, amounts of deposits and withdrawals, and timing of deposits and withdrawals directly with various persons, including clients or shareholders. These requests are made pursuant to a form called "*Account Information Confirmation*."

If you receive an *Account Information Confirmation* regarding Capital Financial Services, your response is voluntary, but your cooperation would be appreciated and would help the SEC in their oversight of the regulated community. Also, please note that these requests may be made in any type of examination. We emphasize that this request that you complete an *Account Information Confirmation* should in no way be an indication of any misconduct by the firm being inspected, any representative of the firm, and/or any other individual or entity. If you have any questions or concerns about an *Account Information Confirmation*, do not hesitate to contact Capital Financial Services at 701-857-9600. In addition, if you wish to confirm that the request has been sent to you by SEC examiners, please call the main telephone number of the office that sent you the request and ask for the examiners identified in the cover letter. The telephone numbers of all SEC offices are available on the SEC's website at: <http://www.sec.gov/contact/addresses.htm>. Alternatively, if you prefer to speak with staff in the SEC headquarters office located in Washington D.C., please call the "Examination Hotline" at (202) 551-EXAM (3926).

#### SIPC Disclosure and Privacy Policy

##### **CAPITAL FINANCIAL SERVICES, INC. SIPC DISCLOSURE AND NOTICE REGARDING TREATMENT OF CONFIDENTIAL INFORMATION**

**Privacy Notice to Our Customers.** Capital Financial Services, Inc. strongly believes in protecting the confidentiality and security of information we collect about you. This notice describes our privacy policy and describes how we treat the information we receive about you.

**Why We Collect And How We Use Information.** When we evaluate your request for our services, provide investment advice to you and process transactions for your account, you typically provide us with certain personal information necessary for these transactions. We may also use that information to offer you other services we provide which may meet your investment needs.

**What Information We Collect.** The personal information we collect may include: Name and address; Social Security or tax ID #; Assets; Income; Account balances; Investment activity; Accounts at other institutions.

**How We Protect Information.** We do not sell your personal information to anyone. We treat information about prospective, current, and former clients and their accounts in a confidential manner. Our employees may access information and provide it to third parties only when completing a transaction at your request or providing our other services to you. We may disclose information to attorneys, accountants, lawyers, securities professionals and others to assist us, or them, in providing services to you. We may also share information with companies that perform services on our behalf, such as the companies that print and distribute our mailings or companies that we hire to perform marketing or administrative services. Companies we may hire to provide support services are not allowed to use your personal information for their own purposes. We may make additional disclosures as permitted by law. We also maintain physical, electronic, and procedural safeguards to protect information. Employees and our professional service representatives are required to comply with our established information confidentiality provisions.

**Access to And Correction of Information.** Generally, upon your written request, we will make available information for your review. Information collected in connection with, or in anticipation of, any claim or legal proceeding will not be made available. If your personal information with us becomes inaccurate, or if you need to make a change to that information, please contact us at the number shown below so we can update our records.

**Further Information.** Write or call us at 1 North Main Street, Minot, ND 58703 -- (701) 837-9600. Capital Financial Services, Inc. is a member of SIPC. You may obtain information about SIPC by visiting their website ([www.sipc.org](http://www.sipc.org)) or by calling (202) 371-8300.