



**1821 West Burdick Expressway  
Minot, ND 58701**

**Tel: 877-814-6379 / 701-837-9600**

**[www.capfin.com](http://www.capfin.com)**

**FORM ADV PART 2  
Firm Brochure  
3/28/2018**

**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, 2017. Since that time Capital Financial Services has made the following material changes to this Brochure.

- Updated Item 5. Fee and Compensation schedules (3/30/2017)
- Removed section on our Target Variance Portfolios and Fees for Target Variance Portfolios (3/30/2017)
- Removed Comprehensive Financial Services; Estate, Retirement & Charitable Consulting Services; and Mutual Fund, Annuity & Variable Life Selection & Reporting Services. CFS no longer offers these services. (3/30/2017)

## **Table of Contents**

1. COVER PAGE .....	1
2. MATERIAL CHANGES .....	2
3. TABLE OF CONTENTS .....	2
4. ADVISORY BUSINESS .....	3
5. FEES AND COMPENSATION .....	4
6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....	7
7. TYPES OF CLIENTS .....	7
8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....	7
9. DISCIPLINARY INFORMATION .....	7
10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....	8
11. CODE OF ETHICS .....	8
12. BROKERAGE PRACTICES .....	9
13. REVIEW OF ACCOUNTS .....	10
14. CLIENT REFERRALS AND OTHER COMPENSATION .....	10
15. CUSTODY .....	11
16. INVESTMENT DISCRETION .....	11
17. VOTING CLIENT SECURITIES .....	11
18. FINANCIAL INFORMATION .....	11
19. OTHER INFORMATION .....	12

#### **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 29, 2017 CFS managed \$279,888,498. \$279,057,375 was managed on a discretionary basis and \$831,123 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 representatives may recommend appropriate investment advisers from a spectrum of advisers that have been evaluated, prescreened and selected by CFS for inclusion to manage the client's assets on a discretionary basis. A CFS Representative works closely with 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 CFS's approved managers 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 has no discretionary trading authority whatsoever with respect to the accounts. CFS Representatives are also available while the investment management services are being provided to evaluate a selected manager's performance.

Client's pay for third party services 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. The annual asset-based fee varies based upon total account value and also based on what third party money manager is selected.

#### **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, ETFs, 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, growth 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 portfolios, CFS will primarily use stocks, mutual funds, or ETF's. 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.

## FINANCIAL CONSULTING SERVICES

CFS also provides Consulting Services about investments on an hourly, subscription, 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 or subscription fee basis, designed to continue the advisory relationship to implement, update and modify the initial advice provided.

### Item 5 Fees and Compensation

#### THIRD PARTY RECOMMENDATION SERVICES FEES

For RBC Correspondent Services accounts that use Resource II, the 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 preceding quarter. The first billing is based on the account value at inception date. Resource II accounts must maintain a minimum balance of \$100,000. Resource II accounts will utilize a third party money manager and there will be an addition charge to the annual fee based on what the money manager charges.

#### RBC Correspondent Services Resource II

Account Value	Annual Fee
\$100,000 to \$250,000	1.58% - 0.92%
\$250,000 to \$500,000	1.27% - 0.73%
\$250,000 to \$500,000	0.95% - 0.54%
\$250,000 to \$500,000	0.71% - 0.41%
\$250,000 to \$500,000	0.59% - 0.34%
\$250,000 to \$500,000	0.51% - 0.29%
\$250,000 to \$500,000	0.47% - 0.26%

#### 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 where the assets are held and whether discretion is exercised by CFS. Fees for quarterly report services generally conform with the following fee schedules:

#### RBC Correspondent Services

In accounts held at RBC Correspondent Services 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. RBC Advisor accounts must maintain a balance of \$25,000.

#### RBC Correspondent Services Advisor Program

Account Value	Annual Fee
\$ 25,000 to \$100,000	1.85% - 1.10%
\$100,000 to \$250,000	1.58% - 0.92%
\$250,000 to \$500,000	1.27% - 0.73%
\$500,000 to \$1,000,000	0.95% - 0.54%
\$1,000,000 to \$2,000,000	0.71% - 0.41%
\$2,000,000 to \$3,000,000	0.59% - 0.34%
\$3,000,000 to \$5,000,000	0.51% - 0.29%
Over \$5,000,000	0.47% - 0.26%

#### FolioFn

For accounts held at FolioFn, the following schedule is used to determine the annual asset-based percentage fee. Client accounts are charged a minimum custodial fee by the custodian, currently 0.2% of assets. Fees are due after services are provided and shall be calculated on the basis of the average daily value of assets in the Account, including balances in the Account held in a money market fund. Fees will be payable quarterly based upon the daily average value of assets at the end of the immediately preceding calendar quarter. Clients are not charged for transactions in the account provided they are traded within a Folio in the account. FolioFn accounts may utilize a third party money manager. If a third party money manager is utilized there will be an addition charge to the annual fee based on what the money manager charges.

#### FolioFn Fee Schedule

Assets Under Management	Annual Fee
On first \$ 100,000	1.70% - 0.95%
On next \$ 150,000	1.30% - 0.75%
On next \$ 250,000	0.95% - 0.58%
On next \$ 500,000	0.65% - 0.43%
On assets above \$ 1,000,000	0.55% - 0.38%

#### FolioFn (3<sup>rd</sup> Party Money Manager Selection Service)

The following schedule is used to determine the annual asset-based percentage fee. Client accounts are charged a minimum custodial fee by the custodian, currently 0.20% of assets with a minimum of \$300 per year per client relationship. Fees are due after services are provided and shall be calculated on the basis of the average daily value of assets in the Account, including balances in the Account held in a money market fund. Fees will be payable quarterly based upon the daily average value of assets at the end of the immediately preceding calendar quarter

CFS in its discretion, may negotiate the foregoing fees in appropriate circumstances. Fees may, therefore, differ from fees charged with respect to other clients depending on the extent of services provided and the costs of such services. The factors that bear upon the cost in relation to the cost of the same services include, among other factors, the amount of the assets the client has, trading activity, investment planning, advisor due diligence, investment management, and custody service. If a third party money manager is utilized there will be an addition charge to the annual fee based on what the money manager charges.

Assets Under Management	Annual Fee Range
First \$ 5,000,000	0.50% - 1.60%
Over \$ 5,000,000	Negotiable

### Trade PMR

For accounts held at Trade PMR, the following schedule is used to determine the annual asset-based percentage fee. This alternative pricing schedule is generally to be used for larger accounts or accounts with little trading activity as Trade PMR charges a small transaction fee for each order placed within the clients account.

Assets Under Management	Annual Fee
On first \$ 100,000	1.50% - 0.750%
On next \$ 150,000	1.10% - 0.550%
On next \$ 250,000	0.75% - 0.375%
On next \$ 500,000	0.45% - 0.225%
On assets above \$ 1,000,000	0.35% - 0.175%

Fees are billed quarterly in arrears. New or closing accounts will be billed a prorated amount for any partial quarter. Partial quarter billings may be waived by the firm.

\*The Manager Fee can be modified by the Investment Adviser at any time, but will not exceed the amount stated on the schedule above.

### QUARTERLY REPORT SERVICE FEE SCHEDULE (Non-Discretionary)

Assets Under Management	Annual Fee
On first \$ 100,000	1.50% - 0.750%
On next \$ 150,000	1.10% - 0.550%
On next \$ 250,000	0.75% - 0.375%
On next \$ 500,000	0.45% - 0.225%
On assets above \$ 1,000,000	0.35% - 0.175%

The fees described above cover CFS's charges for Asset Management Services only.

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.

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 to 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 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 as well as the nature and number of reports requested by the client. A subscription (monthly, quarterly, or yearly) or 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, subscription amount, or provides a flat fee for services. Clients prepay a portion of the estimated hourly, subscription, or flat fee before services begin. The balance of the fee is due promptly after services are completed.

### Considerations

- 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 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 does not 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**

On August 3, 2011 FINRA found that CFS violated FINRA Rule 2010 and NASD Rules 2310, 3010, and 2110. CFS Failed: (i) to have reasonable grounds to believe that private placements offered by Provident Royalties, LLC and Medical Capital Holdings, Inc. were suitable for any customer; (ii) to conduct adequate due diligence on the private placements; and (iii) to maintain a supervisory system reasonably designed to achieve compliance. Through a letter of Acceptance, Waiver and Consent, CFS was censured and agreed to pay \$200,000 in restitution. On December 16, 2011 the SEC found that CFS violated Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. CFS failed to perform reasonable due diligence on private placement offerings by Provident Royalties, LLC prior to recommending them to customers. The SEC censured CFS and ordered it to cease and desist from committing or causing violations and to comply with its undertakings, which included retaining an independent consultant to review and report on its due diligence procedures.

## **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 - Fairfax Global Markets, LLC - Portfolio Strategies Inc. - Genworth Financial Wealth Management - Ameritas Investment Corp. - Equis Capital Management, Inc. - Brinker Capital.

## **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 client’s 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 Donald Waage, President, 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 also utilizes Folio Institutional, RBC Correspondent Services, or Trade-PMR to manage our clients’ investments. Folio Institutional, RBC Correspondent Services, and Trade-PMR delivers a fully integrated, cost effective platform designed to help our representatives manage our clients’ investments. Folio Institutional, RBC Correspondent Services, and Trade-PMR provides efficient client management, custodial, and reporting services.

Folio Institutional, RBC Correspondent Services, and Trade-PMR, 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 Trade-PMR 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 Trade-PMR, and may choose any other broker-dealer for custody and other services, CFS believes that use of Folio Institutional, RBC Correspondent Services, or Trade-PMR 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 Trade-PMR 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 and 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 match 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 determine 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 Non-discretionary Asset Management and Discretionary Asset Management accounts will be reviewed at least four times a year. Reviews can be performed by your Investment Adviser Representative, who will serve as the account manager. 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 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 Non-discretionary Asset Management Agreement and Discretionary Asset Management Agreement, reports will be provided at least every three months. Under the Financial Consulting Agreement, clients will receive one written report. Subsequent reports will be completed upon request. Reports to accounts receiving 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 participate in any soft dollar arrangements. CFS also does not provide any sales awards or other prizes to any of its Investment Advisory Representatives or clients.

#### **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 Adviser 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 701-837-9600. 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 1821 West Burdick Expressway, Minot, ND 58701 -- (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.