

# Disclosure Brochure

December 22, 2020

**CTS Financial Planning, Inc.**

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of CTS Financial Planning, Inc. (hereinafter "CTS"). If you have any questions about the contents of this brochure, please contact Charles Marien at (312) 337-1040. 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 CTS Financial Planning, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

CTS Financial Planning, Inc. is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## Item 2. Material Changes

This Item discusses only the material changes that have occurred to CTS' Disclosure Brochure since its last annual update dated December 26, 2019. The Firm has updated Item 14 to reflect that it may be introduced to clients through a referral arrangement. The Firm has updated Item 15 to reflect that the Firm has engaged an independent accounting firm to perform a surprise annual examination of those assets and accounts over which it maintains custody. The Firm has no other changes to disclose in relation to this Item

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## Item 4. Advisory Business

CTS was founded in 1972 and initially specialized in individual tax preparation for executives and professionals, primarily in the advertising and marketing industries. Over time, services for individuals were expanded, and now include personal financial planning, retirement planning, investment planning, insurance planning and asset management. In November 1985, CTS registered with the SEC as a registered investment adviser. Todd W. Much and Charles A. Marien are the principal owners of CTS.

Prior to engaging CTS to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with CTS setting forth the terms and conditions under which CTS renders its services (collectively the “*Agreement*”).

CTS has \$267,659,000 of assets under management as of September 30, 2020, all of which are managed on a discretionary basis.

This Disclosure Brochure describes the business of CTS. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of CTS’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on CTS’s behalf and is subject to CTS’s supervision or control.

### Financial Planning and Consulting Services

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CTS provides comprehensive financial planning, focused retirement planning, as well as tax planning and preparation.

A CTS comprehensive financial plan analyzes a client’s financial life, followed by a situation analysis and a recommendation of strategies that can help clients develop a plan towards achieving their goals. CTS’s comprehensive financial plan begins with a detailed review of a client’s net worth and asset diversification. CTS examines the client’s current “financial situation” which help determine the current status in various areas, such as savings and educational funding. CTS may provide an estimate for current and future years’ income taxes. If applicable, CTS will also conduct a detailed cash flow analysis to determine how clients are spending their money and review their mortgage. If applicable, CTS will devise a strategically sound plan for funding college education. CTS spends considerable time developing a retirement plan using multiple “what-if” scenarios. CTS may review clients’ estate plans as well as their insurance needs, including life, disability, health, auto, homeowner’s, and long-term care insurance.

For some clients, CTS will provide a focused retirement plan that concentrates on achieving the client’s retirement goals. A CTS focused retirement plan targets a specific age for clients to comfortably retire from their career. This includes a review of the client’s net worth and asset diversification. If applicable, planning for college education will also be considered. This plan develops multiple “what-if” scenarios for achieving retirement using alternative spending and savings goals in conjunction with varying retirement age, rate of return, and inflation rate assumptions.

Unlike many investment advisers and financial planners, CTS also provides accounting services and income tax preparation and planning. Tax returns are prepared and/or supervised by an Enrolled Agent who has earned the privilege of practicing and representing taxpayers before the Internal Revenue Service. Some of the tax and accounting services provided by CTS include personal and federal state income tax preparation, tax planning and projections for current and future years, business income tax preparation for Partnerships, Trusts, LLC's, and corporations, and representation for tax audits and resolution of IRS tax notices, and bookkeeping services for small businesses.

### **Investment Management Services**

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Clients can engage CTS to manage all or a portion of their assets on a discretionary basis.

CTS primarily allocates clients' investment management assets among mutual funds, exchange traded funds ("ETFs"), individual debt and equity securities, *Independent Managers* (as defined below), as well as the securities components of variable annuities and variable life insurance contracts in accordance with the investment objectives of the client. CTS also provides advice about any type of investment held in clients' portfolios.

CTS also may render investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, or other products that may not be held by the client's primary custodian. In so doing, CTS directs the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

CTS tailors its advisory services to the individual needs of clients. CTS consults with clients initially and on an ongoing basis to determine risk tolerance, time horizon and other factors that may impact the clients' investment needs. CTS ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify CTS if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon CTS's management services. Clients may impose reasonable restrictions or mandates on the management of their account if, in CTS's sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

In performing its services, CTS is not required to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. CTS may recommend the services of itself and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if CTS recommends its own services. The client is under no obligation to act upon any of the recommendations made by CTS under a financial planning or consulting engagement or to engage the services of any such recommended professional, including CTS itself. The client retains absolute discretion over all such implementation decisions and is

free to accept or reject any of CTS's recommendations. Clients are advised that it remains their responsibility to promptly notify CTS if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising CTS's previous recommendations and/or services.

### **Use of Independent Managers**

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As mentioned on the previous page, CTS may recommend that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain independent investment managers ("*Independent Managers*"), based upon the stated investment objectives of the client. The terms and conditions under which the client engages the *Independent Managers* are set forth in a separate written agreement between CTS or the client and the designated *Independent Managers*. CTS renders services to the client relative to the discretionary selection or recommendation of *Independent Managers*. CTS also monitors and reviews the account performance and the client's investment objectives. CTS receives an annual advisory fee which is based upon a percentage of the market value of the assets being managed by the designated *Independent Managers*.

When recommending or selecting an *Independent Manager* for a client, CTS reviews information about the *Independent Manager* such as its disclosure brochure and/or material supplied by the *Independent Manager* or independent third parties for a description of the *Independent Manager's* investment strategies, past performance and risk results to the extent available. Factors that CTS considers in recommending an *Independent Manager* include the client's stated investment objectives, management style, performance, reputation, financial strength, reporting, pricing, and research. The investment management fees charged by the designated *Independent Managers*, together with the fees charged by the corresponding designated broker-dealer/custodian of the client's assets, may be exclusive of, and in addition to, CTS's investment advisory fee set forth above. As discussed above, the client may incur additional fees than those charged by CTS, the designated *Independent Managers*, and corresponding broker-dealer and custodian.

In addition to CTS's written disclosure brochure, the client also receives the written disclosure brochure of the designated *Independent Managers*. Certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than CTS. In such instances, CTS may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

If CTS refers a client to an *Independent Manager* where CTS's compensation is included in the advisory fee charged by such *Independent Manager* and the client engages the *Independent Manager*, CTS is compensated for its services by receipt of a fee to be paid directly by the *Independent Manager* to CTS in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, as amended, and any corresponding state securities laws, rules, regulations, or requirements. Any such fee is paid solely from the *Independent Manager's* investment management fee, and does not result in any additional charge to the client.

## Item 5. Fees and Compensation

CTS offers its services on a fee basis, which may include hourly and/or fixed fees, as well as fees based upon assets under management.

### Financial Planning and Consulting Fees

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CTS may charge a fixed fee and/or hourly fee for financial planning and consulting services. These fees are negotiable, but generally range from \$500 to \$7,500 on a fixed fee basis and/or from \$125 to \$500 on an hourly rate basis, depending upon the level and scope of the services and the professional rendering the financial planning and/or the consulting services.

Prior to engaging CTS to provide financial planning and/or consulting services, the client is required to enter into a written agreement with CTS setting forth the terms and conditions of the engagement. Generally, CTS requires one-half of the financial planning and/or consulting fee (estimated hourly or fixed) payable upon entering the written agreement. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services.

### Investment Management Fee

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CTS provides investment management services for an annual fee based upon a percentage of the market value of the assets being managed by CTS. CTS's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. CTS does not, however, receive any portion of these commissions, fees, and costs. CTS's annual fee is prorated and charged quarterly, in arrears, based upon the average market value of the assets being managed by CTS during the previous quarter.

The annual fee varies depending upon the market value of the assets under management and the type of investment management services to be rendered, as follows:

<b><u>PORTFOLIO VALUE</u></b>	<b><u>BASE FEE</u></b>
Up to \$250,000	2.00%
\$250,001 - \$500,000	1.75%
\$500,001 - \$750,000	1.50%
\$750,001 - \$1,000,000	1.25%
Above \$1,000,000	1.00%

CTS, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

## Fees Charged by Financial Institutions

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As further discussed in response to Item 12 (below), CTS generally recommends that clients utilize the brokerage and clearing services of TD AMERITRADE Institutional, a division of TD AMERITRADE, Inc. (“*TD Ameritrade*”) for investment management accounts. CTS participates in the institutional customer program offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA (“*TD Ameritrade*”), an unaffiliated SEC-registered broker-dealer and FINRA member. *TD Ameritrade* offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. CTS receives some benefits from *TD Ameritrade* through its participation in the program. CTS also recommends that clients utilize Jefferson National Securities Corporation, an affiliate of Nationwide Life Insurance Company (“*Jefferson National*”) as custodian for certain retirement accounts and variable annuity accounts.

CTS may only implement its investment management recommendations after the client has arranged for and furnished CTS with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, *TD Ameritrade*, *Jefferson National*, any other broker-dealer recommended by CTS, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the “*Financial Institutions*”).

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties such as fees charged by *Independent Managers* (as defined below), custodial fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund’s prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, for assets outside of any wrap fee programs, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to CTS’s fee.

CTS’s *Agreement* and the separate agreement with any *Financial Institutions* may authorize CTS or *Independent Managers* to debit the client’s account for the amount of CTS’s fee and to directly remit that management fee to CTS or the *Independent Managers*. Any *Financial Institutions* recommended by CTS have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to CTS.

## Fees for Management During Partial Quarters of Service

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For the initial period of investment management services, the fees are calculated on a *pro rata* basis.

The *Agreement* between CTS and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. CTS’s fees are charged through the date of termination and any remaining balance is charged to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to CTS’s right to terminate an account. Additions may be in cash or securities provided that CTS reserves the right to



liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to CTS, subject to the usual and customary securities settlement procedures. However, CTS designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. CTS may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they may be subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

### **Item 6. Performance-Based Fees and Side-by-Side Management**

CTS does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

### **Item 7. Types of Clients**

CTS primarily provides its services to individuals; however, CTS may also provide its services to pension and profit sharing plans, trusts, estates, corporations and business entities.

#### **Minimum Account Size**

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As a condition for starting and maintaining a relationship, CTS generally imposes a minimum portfolio size of \$50,000 for mutual fund portfolios and \$150,000 for individual equity portfolios. CTS, in its sole discretion, may accept clients with smaller portfolios based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities. CTS only accepts clients with less than the minimum portfolio size if, in the sole opinion of CTS, the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance. CTS may aggregate the portfolios of family members to meet the minimum portfolio size.

Additionally, certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than CTS. In such instances, CTS may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

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

### Methods of Analysis

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CTS's primary method of analysis is technical and its secondary method is cyclical analysis.

*Technical analysis* involves the analysis of past market data rather than specific company data in determining the recommendations made to clients. Technical analysis may involve the use of charts to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. The primary risk in using technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that CTS will be able to accurately predict such a reoccurrence.

*Cyclical analysis* is similar to technical analysis in that it involves the analysis of market conditions at a macro (entire market/economy) or micro (company specific) level, rather than the overall fundamental analysis of the health of the particular company that CTS is recommending. The risks with cyclical analysis are similar to those of technical analysis.

### Investment Strategies

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CTS does not utilize a passive buy-and-hold strategy for its clients' investments. Rather, CTS proactively manages investments daily with the goal of limiting its clients' losses when stock and bond markets decline. Because of this, CTS believes its strategy is especially suitable for conservative investors and "baby boomers" nearing retirement who are seeking strategies that are lower in risk and volatility. CTS's key principals invest their money in the same programs offered to its clients.

The primary investment program offered by CTS is the CTS Consolidated Asset Management Program ("CTS CAMP"). The objectives of CTS CAMP are twofold:

- To generate reasonable returns in a manner consistent with its clients' targeted asset allocation strategy; and
- To manage downside risks.

CTS's strategies emphasize risk reduction, and CTS invests conservatively or defensively when confronted with uncertainty and volatility in the stock and bond markets. CTS's investment strategies combine the benefits of "asset allocation" with its proprietary proactive selection system for both stocks and bonds. Specifically, CTS determines which CTS CAMP asset allocation model is most suitable for a client based on the client's investment objectives, time horizon, and risk tolerance.

CTS also offers the CTS Retirement Asset Management Program ("CTS RAMP"), which helps clients to actively manage their retirement plans such as a 401(k) or 403(b) plan. In this case, clients' assets are maintained at the custodian for the employer's plan, and CTS helps the client choose among the funds offered by the employer's plan.

CTS strives to ensure its clients are invested in programs consistent with their risk tolerance level. Clients may be asked to complete an Investor Profile Analysis, which will help CTS determine what a client's maximum exposure to the stock and bond markets should be. For instance, clients invested in the Balanced Growth Strategy would have a maximum stock exposure of 70%, but if conditions in the stock market were unfavorable, this exposure would decrease.

Within each asset allocation model, the maximum exposure to stocks and bonds is based on CTS's proactive selection system. This system utilizes sophisticated, technical indicators and rotation systems to determine if a client should be fully invested in stocks and/or bonds, or moved partially or fully into a stable money market account. The rotation systems help determine in which sectors or segments of the stock and bond markets to be invested. For instance, in the case of bonds, the systems may rotate between U.S. investment grade, high yield and global/foreign bonds. In the case of stocks, the systems may rotate between U.S. large cap, U.S. small cap and foreign stocks. CTS's more aggressive stock models may rotate partially into industry-specific stock sectors such as energy, technology, real estate, and precious metals. As previously indicated, if market conditions are unfavorable, CTS's stock and bond rotation systems can move partially or fully into the safety of a money market account. The goal of CTS's strategies is to try to limit losses.

### **Asset Allocation Models**

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CTS CAMP has a wide range of asset allocation models that have different objectives and risk tolerance levels. For lower risk investors, there are bond-only models that emphasize primarily income and in some cases, growth of capital. The models differ based on the types of bonds utilized. CTS has a diversified bond model that can invest in short and intermediate investment grade bonds, as well as high-yield and global foreign bonds. CTS also has a model that invests only in tax-free municipal bonds.

For higher-risk investors, CTS CAMP has several stock oriented allocation models that focus on growth and income, or aggressive growth for more risky models. The models differ based on the maximum exposure allowed to stocks (between 50% and 100%). Some of CTS's stock models can utilize industry specific stock sectors such as health, energy, technology, real estate, and precious metals, etc. Some of CTS's more aggressive stock models can utilize strategies that go short on various indexes and sectors of the stock market.

### **Investment Vehicles**

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CTS CAMP utilizes primarily no-load mutual funds and Exchange Traded Funds ("ETFs") to execute most of its stock and bond positions. Some mutual funds are chosen based on their Morningstar ratings, their long-term track record, portfolio composition, the fund size, and the tenure of their manager. Where possible, CTS emphasizes the institutional class of funds where the fees are the lowest, and tries to avoid funds with redemption fees to assure clients' funds are easily accessible.

Some mutual funds and ETFs are also chosen because they represent specific style or index sectors like large-cap growth, mid-cap value, NASDAQ 100, S&P 500, etc. and allow for more frequent trading. CTS CAMP also recommends no-load variable annuities for some clients, when appropriate. These no-load variable annuities have no up-front fees, no redemption fees, and a very low flat insurance fee. CTS also utilizes variable annuities when a new client comes to CTS and has a prior position in a non-qualified variable annuity that needs to be maintained for tax purposes.

### **Risks of Loss**

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#### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

#### *Market Risks*

The profitability of a significant portion of CTS's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that CTS will be able to predict those price movements accurately.

#### *Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of open-end mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of an open-end mutual fund is calculated at the end of each business day. The trading prices of a closed-end mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to a closed-end mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

### *Use of Independent Managers*

CTS may recommend the use of *Independent Managers* for certain clients. CTS will continue to do ongoing due diligence of such managers, but such recommendations relies, to a great extent, on the *Independent Managers* ability to successfully implement their investment strategy. In addition, CTS does not have the ability to supervise the *Independent Managers* on a day-to-day basis other than as previously described in response to Item 4, above.

### *Management Through Similarly Managed Accounts*

For certain clients, CTS may manage portfolios by allocating portfolio assets among various mutual funds on a discretionary basis using one or more of its proprietary investment strategies (collectively referred to as “*investment strategy*”). In so doing, CTS buys, sells, exchanges and/or transfers shares of mutual funds based upon the *investment strategy*.

CTS’s management using the *investment strategy* complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides similarly managed accounts, such as the *investment strategy*, with a safe harbor from the definition of an investment company.

The *investment strategy* may involve an above-average portfolio turnover that could negatively impact upon the net after-tax gain experienced by an individual client. Securities in the *investment strategy* are usually exchanged and/or transferred without regard to a client’s individual tax ramifications. Certain investment opportunities that become available to CTS’s clients may be limited. For example, various mutual funds or insurance companies may limit the ability of CTS to buy, sell, exchange or transfer securities consistent with its *investment strategy*. As further discussed in response to Item 12, CTS allocates investment opportunities among its clients on a fair and equitable basis.

## **Item 9. Disciplinary Information**

CTS is required to disclose the facts of any legal or disciplinary events that are material to a client’s evaluation of its advisory business or the integrity of management. CTS does not have any required disclosures to this Item.

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

CTS is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. CTS has described such relationships and arrangements on the next page.

## Receipt of Insurance Commission

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CTS is under common control with Certified Insurance Consultants, Inc. (“CIC”), a duly licensed insurance agency. Certain of CTS’s *Supervised Persons*, in their individual capacities, are also licensed insurance agents with CIC, and in such capacity, may recommend, on a fully-disclosed commission basis, the purchase of certain insurance products. While CTS does not sell such insurance products to its investment advisory clients, CTS does permit its *Supervised Persons*, in their individual capacities as licensed insurance agents, to sell insurance products to its investment advisory clients. A conflict of interest exists to the extent that CTS recommends the purchase of insurance products where CTS’s *Supervised Persons* receive insurance commissions or other additional compensation.

## Item 11. Code of Ethics

CTS and persons associated with CTS (“Associated Persons”) are permitted to buy or sell securities that it also recommends to clients consistent with CTS’s policies and procedures.

CTS has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws (“*Code of Ethics*”). In accordance with Section 204A of the Investment Advisers Act of 1940 (the “Advisers Act”), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by CTS or any of its associated persons. The *Code of Ethics* also requires that certain of CTS’s personnel (called “*Access Persons*”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in CTS’s *Code of Ethics*, none of CTS’s *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of CTS’s clients.

When CTS is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when CTS is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact CTS to request a copy of its *Code of Ethics*.

## Item 12. Brokerage Practices

As discussed above, in Item 5, CTS generally recommends that clients utilize the brokerage and clearing services of *TD Ameritrade*, as well as *Jefferson National* for certain retirement accounts and variable annuity accounts. Factors which CTS considers in recommending *TD Ameritrade*, *Jefferson National*, or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service.

*TD Ameritrade* enables CTS to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by *TD Ameritrade* may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by CTS's clients comply with CTS's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where CTS determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. CTS seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

CTS periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct CTS in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and CTS will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by CTS (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, CTS may decline a client's request to direct brokerage if, in CTS's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless CTS decides to purchase or sell the same securities for several clients at approximately the same time. CTS may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among CTS's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among CTS's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that CTS determines to aggregate client orders for the purchase or sale of securities, including securities in which CTS's *Supervised*



Persons may invest, CTS generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. CTS does not receive any additional compensation or remuneration as a result of the aggregation. In the event that CTS determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, CTS may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist CTS in its investment decision-making process. The software and support is not provided in connection with securities transactions of clients (i.e. not "soft dollars"). Such research generally will be used to service all of CTS's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because CTS does not have to produce or pay for the products or services.

### **Software and Support Provided by Financial Institutions**

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CTS may receive from *TD Ameritrade*, without cost to CTS, computer software and related systems support, which allow CTS to better monitor client accounts maintained at *TD Ameritrade*. CTS may receive the software and related support without cost because CTS renders investment management services to clients that maintain assets at *TD Ameritrade*. The software and related systems support may benefit CTS, but not its clients directly. In fulfilling its duties to its clients, CTS endeavors at all times to put the interests of its clients first. Clients should be aware, however, that CTS's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence CTS's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

There is no direct link between CTS's participation in the program and the investment advice it gives to its clients, although CTS receives economic benefits through its participation in the program that are typically



not available to TD Ameritrade retail investors. Additionally, CTS may receive the following benefits from *TD Ameritrade* through its registered investment adviser division: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its Registered Investment Adviser participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

These products or services may assist CTS in managing and administering client accounts, including accounts not maintained at *TD Ameritrade*. Other services made available by *TD Ameritrade* are intended to help CTS manage and further develop its business enterprise. The benefits received by CTS's participation in the program do not depend on the amount of brokerage transactions directed to *TD Ameritrade*. Clients should be aware, however, that the receipt of economic benefits by CTS or its related persons in and of itself creates a potential conflict of interest and may indirectly influence CTS's recommendation of *TD Ameritrade* for custody and brokerage services.

### Item 13. Review of Accounts

For those clients to whom CTS provides investment management services, CTS monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom CTS provides financial planning and/or consulting services, reviews are conducted on an "as needed" basis. Such reviews are conducted by one of CTS's investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with CTS and to keep CTS informed of any changes thereto. CTS contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom CTS provides investment advisory services may receive a report from CTS that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance from time to time. Clients should compare the account statements they receive from their custodian with those they receive from CTS.

Those clients to whom CTS provides financial planning and/or consulting services will receive reports from CTS summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by CTS.

### Item 14. Client Referrals and Other Compensation

CTS is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. In addition, CTS is required to disclose any direct or indirect compensation that it provides for client referrals.

In the event a client is introduced to CTS by either an unaffiliated or an affiliated solicitor, the Firm may pay that solicitor a referral fee in accordance with applicable state securities laws. Unless otherwise disclosed, any such referral fee is paid solely from the Firm's overall revenue and does not result in any additional charge to the client. If the client is introduced to the Firm by an unaffiliated solicitor, the client will receive a solicitor's disclosure statement containing the terms and conditions of the solicitation arrangement. Any affiliated solicitor of CTS is required to disclose the nature of his or her relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of the Firm's written brochure(s) at the time of the solicitation.

CTS may recommend certain of its clients to various professionals, including Kantor & Apter Ltd., for various legal services (collectively, "*Professionals*"). The *Professionals* render such services independently of CTS. CTS does not receive any portion of the fees charged (referral or otherwise) for the services rendered by *Professionals*. However, CTS may receive reciprocal recommendations from these *Professionals*.

### Item 15. Custody

CTS's *Agreement* and/or the separate agreement with any *Financial Institution* may authorize CTS through such *Financial Institution* to debit the client's account for the amount of CTS's fee and to directly remit that management fee to CTS in accordance with applicable custody rules.

The *Financial Institutions* recommended by CTS have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to CTS. In addition, as discussed in Item 13, CTS may send periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from CTS.

CTS also has custody due to clients giving the Firm limited power in a standing letter of authorization to disburse funds to one or more third parties as specifically designated by the client. In such circumstances, the Firm will implement the steps in the SEC's no-action letter on February 21, 2017 which includes (in summary): i) instruction from the client to the *Financial Institution*; ii) client authorization to the Firm to direct transfers to the third party; iii) the *Financial Institution* performs appropriate verification of the instruction and provides a transfer of funds notice to the client promptly after each transfer; iv) the client has the ability to terminate or change the instruction; v) the Firm has no authority or ability to designate or change the identity or any information about the third party; vi) the Firm will keep records showing that the third party

is not a related party of the Firm or located at the same address as the Firm; and vii) the *Financial Institution* sends the client an initial and annual notice confirming the instruction.

As CTS is deemed to have custody over clients' assets (for reasons other than those discussed above), the Firm is required to engage an independent accounting Firm to perform a surprise annual examination of those assets and accounts over which it maintains custody. Any related opinions issued by an independent accounting Firm are filed with the SEC and are publicly available on the SEC's Investment Adviser Public Disclosure website. CTS does not have direct access to client funds as they are maintained with an independent qualified custodian.

### **Item 16. Investment Discretion**

CTS is given the authority to exercise discretion on behalf of clients. CTS is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. CTS is given this authority through a power-of-attorney included in the agreement between CTS and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). CTS takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The *Independent Managers* to be hired or fired.

### **Item 17. Voting Client Securities**

CTS is required to disclose if it accepts authority to vote client securities. CTS does not vote client securities on behalf of its clients. Clients receive proxies directly from the *Financial Institutions*.

### **Item 18. Financial Information**

CTS does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, CTS is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. CTS has no disclosures pursuant to this Item.

**CTS Financial Planning, Inc.**

*a Registered Investment Adviser*

Prepared by:



**MARKETCOUNSEL®**  
*The Adviser's Advisor®*