



# CAPITAL FORMATION GROUP, INC.

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This Brochure provides information about the qualifications and business practices of Capital Formation Group, Inc. (“CFG”). If you have any questions about the contents of this Brochure or our firm, please contact us at (781) 237-0123 or send an email to [info@capformgroup.com](mailto:info@capformgroup.com). The information in this Brochure has not been approved or verified by the State of Massachusetts Securities Division, the SEC, or by any other state securities authority.

CFG is registered as an investment adviser with the State of Massachusetts. Investment adviser registration by itself does not imply a certain level of skill or training.

**Item 2: Material Changes**

This Item 2 discusses only specific material changes that have been made to the Brochure since the firm's last filing on March 29, 2019. Clients wishing to receive a complete copy of our current Brochure may request a copy, free of charge, by contacting CFG's Chief Compliance Officer, James Lee, at (781) 237-0123 or by emailing [info@capformgroup.com](mailto:info@capformgroup.com).

**Summary of Material Change**

Since the previous amendment filing on March 29, 2019, Capital Formation Group, Inc. has transitioned from registration as an investment adviser with the U.S. Securities and Exchange Commission to become registered as an investment adviser with the State of Massachusetts.

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## **Item 4: Advisory Business**

### **Our Firm**

CFG has been a registered investment adviser since 1985, growing to provide a comprehensive range of financial services and products to anticipate and meet our clients' needs.

Our principal owners are John D. Williams, Michael J. Toomey, and William M. Doran, Jr.

### **Our Services**

CFG offers the following services:

#### ***Financial Independence Planning***

We work with clients to identify and set aside the capital they need to be financially independent, which we consider an important predicate to investment management. This involves probability of success/portfolio design and may also entail any or all of tax qualified retirement and deferred compensation planning, private banking services, and insurance advice and coordination. This service is often a prelude to establishing an investment management relationship, but it may be provided on a standalone basis.

#### ***Investment Management***

CFG, through its sub adviser(s), works with clients to customize portfolios to their individual needs, taking into account investment goals, time horizons, risk tolerances, tax issues, liquidity needs and special situations; this process determines a client's optimal asset allocation. The relationship begins with client meeting(s) to establish the above information. CFG, through its sub adviser(s), then focuses on investment structure and selection. As part of the process, clients may at any and all times impose restrictions on investing in certain securities or types of securities. CFG, through its sub adviser(s), can and may invest in or recommend any and all asset classes where appropriate for a given client, including but not limited to, passive, index-like investments and active, manager-based investments. CFG, through its sub-adviser(s), typically invests in, and recommends that clients invest assets in, mutual funds and exchange-traded funds ("ETFs"), but we may also invest in or recommend individual securities or we may place client assets in or recommend separately managed accounts with third-party investment advisers with particular expertise, pooled investment funds, or other types of investments. For example, when a substantial investment in individual municipal bonds is appropriate for a particular client, we will recommend or that the client allocate a portion of the client's portfolio, and/or place that portion of the portfolio with a third-party investment adviser.

CFG primarily provides non-discretionary management of client portfolios through its sub-adviser(s). CFG, through its sub adviser(s), recommends the investments or the third-party investment advisers to the client, but that the client him or herself should act upon such recommendation. We measure the performance of a client's portfolio monthly, using an external third-party performance measurement service, against the client's investment objectives, as well as appropriate market indices.

CFG may also provide investment advice without direct portfolio management and consults on securities-related matters; for example, in connection with estate planning, retirement planning, or any other investment or financial concern.

CFG has entered into a written sub-advisory agreement with Ingalls & Snyder, LLC, an unaffiliated SEC registered investment adviser, to provide investment advisory services to all or a portion of CFG's client portfolios, as appropriate. CFG has also entered into a relationship with ValMark Securities, Inc., and may recommend that clients retain ValMark for certain investment advisory services. As applicable, CFG will monitor the sub adviser and may, from time to time and in its sole discretion, hire, replace, and/or recommend another sub adviser as part of our engagement to manage the client's portfolio(s) consistent with the client's objectives. CFG will ensure that, as appropriate, the client receives a copy of the disclosure document (Form ADV Part 2, or other disclosure documents in lieu of Part 2) of any sub adviser selected to manage all or a portion of a client's account assets.

### ***Related Services***

CFG also provides related financial services and products to meet our clients' needs, including insurance management, estate management, tax planning, business planning, and other family office services. Further information is available on our website or upon request to our office.

In all cases, where CFG does not have the necessary expertise in-house, we refer the client to selected advisers or service providers.

CFG is not responsible for monitoring the occurrence or status of class action securities litigation or other legal claims affecting investments of client accounts, nor participating in or taking any action with respect to any such proceedings. However, we will consult with clients on such matters as reasonably requested.

### ***Assets Under Management***

As of December 31, 2019, CFG had total assets under management of \$2,012,594, all advised on a non-discretionary basis.

## **Item 5: Fees and Compensation**

### **Investment Management Services**

Fees for CFG's investment management services are typically 1.00% of assets under management ("AUM") per annum, but may be individually negotiated if circumstances warrant. Solely at the discretion of CFG or its sub adviser, smaller accounts may be invested in one of our current custodian's mutual fund MarketTrack Portfolios, which feature diversified indexing strategies aligned with the client's target risk level as stated in the client's Investment Policy Statement. For those accounts, CFG will reduce its fee to 0.40% of AUM. CFG will also reduce its fee to 0.40% of AUM for assets invested in individual municipal bonds managed by a third-party investment adviser in a separately managed account. Third-party advisers with whom CFG client assets may be invested

also charge fees, which may include a component that is based on the investment performance of the account. CFG's fees are not reduced by the amount of fees payable to third-party investment advisers.

CFG's investment management fees are payable monthly in arrears at the beginning of the following month and are deducted directly from the client's account upon the sub adviser's notification to the custodian. Third-party adviser fees may be payable on a different schedule such as quarterly in arrears.

Mutual funds and ETFs in which client assets are invested also charge management fees and incur expenses, and may impose initial or deferred sales charges, which are disclosed in the fund's prospectus or other offering document, which is available upon request. CFG's fees are not reduced by the amount of these fees, expenses or charges. CFG's fees are also exclusive of custodial fees, brokerage commissions and other transaction costs, which are incurred by the client's account. Clients may also incur various other types of charges imposed by custodians, brokers and other third parties, including but not limited to transfer taxes and wire and electronic fund transfer fees. CFG does not receive any load charges, 12b-1 or other account servicing fees from any fund or investment manager, nor any portion of any of the fees and charges referred to above. CFG has no financial interest in any third-party investment adviser except as may be noted in this document.

A client may, of course, invest directly in mutual funds, ETFs, or pooled investment funds without paying a management fee to CFG. However, in that case, the client would not receive CFG services, including selection or recommendation of funds or other investments intended to be appropriate for the client's investment objectives. Similar advisory services may be available from other registered investment advisers for lower fees.

A client may terminate the investment advisory contract, without penalty, immediately upon written notice. Termination of CFG services during a month will incur a pro-rated portion of fees for that month.

Insurance products provided by CFG affiliates may include an investment component. CFG personnel and an affiliated company receive additional compensation in connection with establishing insurance arrangements. This compensation and the conflicts of interest that may be involved are described in "Other Financial Industry Activities and Affiliations" below.

## **Financial Planning**

Fees for financial planning and investment consulting services, which are generally fixed in advance, are negotiated for the particular assignment based on the complexity of the plan. The actual scope of services and fees will be agreed upon based on the client's specific needs and situation. Fees range from \$1,000.00 to \$50,000.00 with one-half of the total fee agreed upon due upon engagement and the remainder of the fee due upon completion of the service(s) or an agreed upon timeframe prior to the completion of the service(s).

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

CFG does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## **Item 7: Types of Clients**

CFG provides portfolio management services to individuals, trusts, pension and profit sharing plan participants, charitable organizations, foundations and endowments. CFG requires a minimum portfolio of \$250,000; however, exceptions may be made at CFG's discretion.

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

In recommending sub advisers for our client's accounts, we take into consideration the client's investment needs, time horizon, and other factors which we discuss with our clients at an initial or subsequent meeting.

In reviewing our sub advisers, we perform a qualitative analysis of the investment adviser, addressing topics such as whether there is a coherent investment philosophy and an identifiable competitive advantage. We look for deep, stable and experienced management teams that have a high level of integrity, have weathered multiple market cycles, and have a stake in the success of the firm, preferably majority ownership that will ensure longevity. We consider the techniques used by management to identify and control overall portfolio risk. We assess what the factors leading to previous out-performance were and whether they are repeatable.

When giving investment advice to clients, CFG, and its sub adviser(s), focuses on implementing strategies best suited to a clients' pre-determined investment profile. These may include but are not limited to long-term purchases (holding securities for at least one year), short-term purchases (selling securities within one year of purchase), short sales, margin transactions and option writing (which may include covered options, uncovered options or spreading strategies).

Investing in securities, no matter what strategy is used, involves a variety of types of risk of loss that clients should be prepared to bear. Some or all of the following apply to any investment:

- *Interest-Rate Risk:* Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- *Market Risk:* The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- *Inflation Risk:* When any type of inflation is present, a dollar today will not buy as much as a dollar next year because purchasing power is eroding at the rate of inflation.
- *Currency Risk:* Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.

- *Reinvestment Risk*: This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- *Business Risk*: These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- *Liquidity Risk*: Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product.

## **Item 9: Disciplinary Information**

We are required to disclose any legal or disciplinary events that would be material to clients' evaluation of CFG or the integrity of CFG's management. CFG is not aware of any events of this nature.

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

### **Insurance Activities**

The principal duties of John D. Williams, our Founder and CEO, involve insurance planning and sales through an affiliate of CFG, Capital Formation Insurance Agency, Inc. ("CFIA"), which takes up approximately 75% of his time. Mr. Williams and other CFG personnel advise clients on designing their optimal insurance plans, which may include life, disability, and long-term care insurance. They then may assist the clients in obtaining insurance products of various insurance companies or the clients may obtain those products elsewhere.

Insurance products may include an investment component, so CFIA offers them through a registered broker-dealer, Valmark Financial Group ("Valmark"). Mr. Williams and other employees are Registered Representatives of Valmark for the sale of variable life and variable annuity products, but CFG does not place any brokerage business through Valmark. When our clients purchase insurance products through us, CFIA receives commissions (which may include both initial and continuing payments) based on the size and nature of the respective policies, either through Valmark or directly from the carrier.

Because CFIA receives commissions based on the size and nature of the policies sold to our clients, there is a conflict between our clients' interests and ours, since we have an incentive to recommend policies based on the compensation we receive rather than the client's needs. We disclose this situation to each client to whom we offer insurance products, and clients are under no obligation to accept or implement these recommendations through CFIA.

### **Relationships with Other Advisers and Financial Industry Participants**



As discussed above, CFG may engage third-party investment advisers to manage portions of clients' investment management accounts. CFG has entered into a written sub-advisory agreement with Ingalls & Snyder, LLC, an unaffiliated SEC registered investment adviser, and Valmark to provide Investment Advisory Services to all or a portion of CFG's client portfolios, as appropriate.

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

CFG seeks to foster a reputation for openness, integrity, honesty, and trust with the highest standards of professionalism. To further this goal, CFG has adopted a Code of Ethics Policy, which sets out the standards of business conduct that we require of our personnel, reflecting our and their fiduciary obligations and requiring our personnel to comply with applicable federal securities laws. The Code includes an Insider Trading Policy designed to deter the misuse of material non-public information and other procedures intended to avoid conflicts of interest between clients and CFG personnel in connection with personal securities transactions. Advisory personnel of CFG are required to disclose personal securities transactions to the firm. CFG will provide a copy of its Code of Ethics Policy to any client or prospective client upon request.

CFG and its related persons may buy or sell for their own account securities that the firm recommends or purchases or sells for client accounts. CFG and its related persons may also take investment actions for their own or client accounts that differ from actions taken or recommendations made for other clients as a result of different or potentially different circumstances, strategies, or goals. However, as a fiduciary to our clients, we seek to place client interests first. In order to comply with our legal and fiduciary duties and to avoid conflicts of interest, it is CFG's policy that personnel must comply with applicable federal and state law and that neither the firm nor any related person may use confidential information about client accounts in making personal transactions, take personal advantage of investment opportunities that properly belong to clients, or act on the basis of material, nonpublic (inside) information about the issuer of a security in taking investment action for either client or personal accounts, even if that would benefit the account.

In general, with respect to relatively liquid securities (that is, securities that are widely held and that trade in institutional markets), the firm and its related parties may trade in the same securities contemporaneously with directing trades on behalf of client accounts. Considering the types and amount of securities that CFG manages, we do not believe that any such trading would have any appreciable impact upon the prices of such securities. In those rare cases where the security being traded for a client account is considered illiquid, all client purchases and sales will be executed before any transactions in the same security for the account of CFG or any of its related parties.

In the event that there is a conflict of interest with a transaction that is offered to a client, a written disclosure indicating involvement or possible conflict will be provided to the client for acknowledgement.

Please refer to "Other Financial Industry Activities and Affiliations" above, which describes the commissions payable to CFIA with respect to sales of insurance products to CFG clients.

## **Item 12: Brokerage Practices**

Because we provide only non-discretionary advice to our clients, we do not directly engage brokers to execute transactions for our client's portfolios.

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

Investment advisory accounts are continuously monitored by CFG directly or through its sub adviser(s). CFG personnel, and/or its sub adviser, attempt to hold formal reviews with clients annually, at minimum, to review accounts and other relevant economic and market information and to discuss and determine asset allocation, but formal reviews occur as often or as little as possible, according to client direction. We semi-annually rebalance our portfolios to individual client investment targets, but extreme market conditions can force rebalancing of the entire portfolio, or a given asset class, at any time.

CFG, through its sub adviser(s), provides clients with monthly account investment performance reports, including a comparison to appropriate market indices, electronically or by printed copy, per client discretion. Each client's custodian provides monthly investment holdings, electronically or by printed copy, per client discretion. Information on client assets and holdings are available continuously through the custodian(s) website. Also included in the reports are transaction schedules and account appraisals. More frequent contacts are made in writing and by telephone where circumstances warrant. CFG, through its sub adviser(s), also provides quarterly market newsletters delivered electronically or by printed copy, per client discretion.

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

CFG has entered into an introducer and marketing agreement with Chartwell Advisors, LLC ("Chartwell") pursuant to which Chartwell has agreed to provide us with leads and referrals of certain clients for our investment advisory services. We have agreed to pay Chartwell an ongoing fee equal to a percentage of the value of the investment accounts of clients solicited by Chartwell. This agreement is structured to be in compliance with all legal and regulatory requirements applicable to relationships of this type.

## **Item 15: Custody**

CFG's client assets are maintained with a qualified custodian to hold, maintain control of and be responsible for safeguarding the client's assets. CFG does not act as a direct custodian over the assets in the accounts we manage for our clients nor do we have physical custody of any funds or securities. For regulatory purposes, CFG is deemed to have custody of your assets if you authorize CFG to instruct your custodian to deduct our advisory fees directly from your account. Some clients require that their assets be held by their preferred third party custodian and not by CFG's qualified custodian. In these instances, the custody agreement is between the client and their third party custodian. For these non-custodian accounts, statements are sent by the third party custodian directly to the client. Clients should receive, at least quarterly, statements directly from the qualified custodian that holds and maintains their investment assets. CFG encourages clients to carefully review those statements promptly when received.

**Item 16: Investment Discretion**

CFG does not have discretionary authority to manage securities accounts on behalf of its clients. We make recommendations with respect to sub advisers which a client may engage, but each client is free to reject any such recommendation.

**Item 17: Voting Client Securities**

CFG does not vote proxies for portfolio securities for client accounts.

**Item 18: Financial Information**

Under current regulations, we are not required to provide detailed financial statement information.

**Item 19: Requirements for State-Registered Advisers**

Neither CFG nor any of its management persons have been involved in any arbitration claim alleging damages in excess of \$2,500 or in any civil, self-regulatory organization, or administrative proceeding involving (i) an investment or investment-related business or activity; (ii) fraud, false statements, or omissions; (iii) theft, embezzlement, or other wrongful taking of property; (iv) bribery, forgery, counterfeiting, or extortion; or (v) dishonest, unfair, or unethical practices.

