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This brochure provides information about the qualifications and business practices of Baltimore-Washington Financial Advisors, Inc. (BWFA). If you have any questions about the contents of this brochure, please contact BWFA's President and Chief Compliance Officer, Mr. Robert Carpenter. He may be reached by phone at 410-461-3900, toll free 888-461-3900, or by email at [emailus@bwfa.com](mailto:emailus@bwfa.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Additional information about BWFA is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

BWFA is a registered investment advisor that hires only highly skilled, well-qualified advisors. However, the SEC does not evaluate the expertise of advisors, and so registration with the SEC does not imply that BWFA or any individual providing investment advisory services on behalf of BWFA possesses a certain level of skill or training. Prospective clients can rely on BWFA's oral and written communications as a meaningful basis on which to evaluate the firm. Conversations with BWFA's experienced advisors and review of BWFA's website and print material will aid prospective clients in determining if the services offered by BWFA will meet clients' unique investment management, financial planning, tax, and business service needs.

## **Item 2 Summary of Material Changes**

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Since our last annual updating amendment dated March 27, 2019, there have been no material changes to our Form ADV.

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## Item 4 Advisory Business

**A. Firm Description.** Baltimore-Washington Financial Advisors was incorporated in 1986 and is a comprehensive Fee-Only wealth management firm, offering Financial Planning, Investment Management, Tax, and Business Services. As a Fee-Only advisor, BWFA only receives compensation directly from its clients for the services it provides to them. [See Item 14.A, page 22] Because BWFA's compensation is not contingent on the purchase or sale of financial products, it can offer clients advice that is objective and unbiased. Advisors and employees in BWFA's Financial Planning, Investment Management, Tax, and Business Services departments work as a team and take a holistic approach to analyzing each client's situation. BWFA's objective is to integrate the disciplines of planning, investments, and taxes so its clients can derive a greater benefit than they would if these issues were addressed individually. BWFA's principal owner is Robert Carpenter (100%).

**B. Types of Advisory Services.** BWFA offers services to clients in Financial Planning, Investment Management, Taxes, and Business Services as outlined below.

1. Financial Planning Services - BWFA provides the following types of planning services.

*a. Financial Blueprint Plans-* These plans address the issues of concern to people who are at or near the beginning of their careers. The objective of this type of plan is to identify ways for clients to embark on a healthy financial life. The Financial Blueprint highlights how to save for multiple priorities, finance major purchases, pay off debt, and begin investing for retirement. Advice is also given in the areas of tax minimization, education funding, insurance, and basic estate planning.

*b. Retirement and Estate Plans-* These types of plans address the myriad issues of concern to people who are within five years of retirement, or in retirement. The objective of this type of plan is to outline for clients how they can achieve their retirement goals and live in retirement with financial security. This is accomplished by developing detailed year-by-year financial projections and using sophisticated analytical tools (such as Monte Carlo simulation) to "test" different scenarios, and then helping clients identify the best course to follow. In addition, the plan identifies estate planning issues that need to be addressed:

- Organize the client's financial affairs to make the estate settlement process as easy and as inexpensive as possible for the client's heirs, thereby promoting family harmony
- Establish how the client's assets will be handled when s/he is no longer able to manage them
- Minimize taxes (federal & state estate and income)

BWFA generally expects to complete all types of financial plans in 30-60 days from the date the Financial Planning Service Agreement is signed. There are usually multiple contacts during the data gathering phase and at least one face-to-face meeting at the time the plan is delivered.

*c. Financial Plan Updates* - Included as part of all Retirement Plans is an annual Financial Plan Update. The purpose of this review is to determine if the client's financial objectives are being met and if modifications or revisions to the plan should be made. At Financial Plan Update meetings, a member of BWFA's financial planning team will:

- Compare the client's current financial situation with the projections contained in the original plan

- Review the status of action items identified in the original plan
- Discuss the client's current situation
- Identify any new issues and establish action items, as appropriate

*d. Financial Planning Projects-* BWFA will occasionally provide to clients specialized financial planning information that meets a specific client need. These types of special projects generally fall outside the scope of BWFA's typical financial plans and are completed by BWFA on a discretionary basis.

2. Investment Management Services - BWFA's advisors/portfolio managers consider a client's financial goals, financial situation, income needs, and tax circumstances. They also evaluate the client's investment risk tolerance. Based on these factors, BWFA designs, constructs, and implements one or more investment portfolio appropriate to the client's circumstances. The investments selected for the client's portfolio conform to the BWFA investment model chosen by the client in consultation with his/her advisor. The advisor provides ongoing oversight and management of the client's investments in accordance with the advisor's analysis of current economic and market conditions. BWFA's advisors make changes in a client's portfolio (execute sells and buys) only when they believe the changes will benefit the client. Because BWFA receives no compensation for making trades, the advisors can act in the interests of their clients. BWFA provides investment advice to clients only with respect to the following:

- Securities that are listed on public securities exchanges, including stocks, bonds, preferred securities, convertible securities, real estate investment trusts, options on securities, and publicly traded limited partnerships
- Certificates of deposit
- United States government securities
- Collective investment funds (such as index funds, actively managed mutual funds, and exchange-traded funds) that are composed of securities listed on public securities exchanges

BWFA does not provide investment advice on private investments or securities that do not trade on public securities exchanges. One exception occurs when a client seeks advice on investment options held within annuities, permanent life insurance policies, or employer-sponsored retirement plans that the client holds.

BWFA maintains a buy/sell/hold list of approximately 80-100 securities that it believes are appropriate investments for its clients. These 80-100 securities vary as to type (e.g. aggressive growth, growth, growth & income, income, international, etc.) A client's investment model (as well as certain other factors) defines the proportion of each security type that is held in the client's account. BWFA follows news, broad research resources, published analyses, and developments that it believes might influence each of the 80-100 investments. Based on our research of companies and the economy, we endeavor to select those securities that we believe represent the most attractive opportunities for our clients over the long term. Our core investment time horizon is typically three to five years. Our investment objective is generally long-term growth of capital. See Item 8.A, page 12 for a discussion of BWFA's methods of analysis for managing assets. See Item 13.A(1), page 20 for additional information on BWFA's buy/sell/hold list.

BWFA uses Broadridge's Global Securities Class Action Services to monitor class action shareholder lawsuits and file claims on behalf of its clients to participate in cases where they may be eligible to receive proceeds due to legal settlements. Processing of class action claims are

subject to a contingency fee assessed directly by Broadridge, in the event a recovery is made. (See Item 5C.2 on page 10.) Class action recoveries, less the contingency fee, are paid directly by Broadridge to BWFA clients. Clients may opt out of this service by advising BWFA in writing.

3. Tax Services - BWFA provides tax preparation, estimated tax, and tax advisory services. BWFA's tax services are integrated with the planning, investment, and business services provided by BWFA, thus distinguishing the tax services offered by BWFA from those offered by other tax preparers. This integration can be of significant benefit to clients. Each tax service is summarized below:

a. *Tax Preparation* - BWFA uses the data provided by the client to prepare all of the forms, schedules, and worksheets that are required for a complete and accurate tax return. In cases where the tax client also utilizes BWFA's investment management services, the client's advisor/portfolio manager is engaged in the tax process to help ensure that all relevant factors and tax savings strategies are considered and applied appropriately. Advisors/Portfolio managers also review for completeness and accuracy the tax returns of their clients prior to filing.

b. *Premium Estimated Tax Service*- BWFA provides this service to ensure that a client's estimated tax payments are computed accurately and paid by the due dates to the appropriate federal and state taxing authorities. The service is designed for clients who must make estimated tax payments and who may have wide variations in their income and/or deductions. The service has the following objectives:

- Relieve the client of the burden of calculating and making quarterly estimated tax payments
- Avoid/Minimize penalties for underpayment of taxes
- Plan the payment of large tax bills (\$1,000 or more) by the due dates
- Avoid a large, unexpected tax bill

c. *Tax Planning and other Advisory Services*- BWFA will research complex tax issues and provide tax advice to clients. When engaged in providing tax consulting services, such advice will be provided in writing with appropriate tax regulation references. Examples of projects include:

- Stock option tax analysis
- Tax-free disposition of real estate
- Choice of business entity
- Responses to tax agency audits or letters
- Representation at audits
- Planning for large charitable donations
- Multi-year alternative minimum tax planning projects

4. Business Services - BWFA offers a variety of business-related services to clients who own or want to own a business. We perform business valuations and succession/exit planning, offer business accounting and financial advice, and help clients obtain business financing. In addition, we aid business owners and potential owners with services, support, and advice during each step of a business sale/purchase. BWFA guides a client through: preparing a business for sale, determining market value, examining the financial implications of the sale, marketing and positioning the company, matching buyers and sellers, negotiating terms, completing due diligence, and closing the transaction.

5. Employer-Sponsored Retirement Plan Services - For small- to mid-sized companies offering employee retirement plans, BWFA will:

- a. Build a list of available funds and ETFs from which employees can pick when allocating investments in their retirement accounts
- b. Provide portfolio models with suggested allocations that employees can use as a reference
- c. Assist in the development of an investment policy statement (IPS)
- d. Sponsor one or more educational seminars each year to provide employees with investment-related information that will aid them in making investment decisions
- e. Offer certain financial planning services to some plan participants

Note: Portfolio management services are not provided as part of this service. BWFA has no discretion over employee investments and does not manage employee assets. Employees choose their own portfolio models and investment allocations. They are free to disregard BWFA-provided suggestions and manage their retirement accounts in whatever manner they choose.

**C. *Tailoring Investment Management Advisory Services.*** In addition to what is described in section B above, BWFA tailors its advisory services to the individual needs of investment management clients in three basic ways.

1. Model Portfolios - BWFA offers three different investment models in order to meet the needs of individual clients. Models range in risk level from Capital Appreciation to Conservative Growth to Growth and Income. In addition, some custom models exist to accommodate unusual circumstances. Each model provides specific guidelines for allocating client investments among various asset types. Clients choose a BWFA investment model in consultation with their advisor/portfolio manager.

Each client is encouraged to complete a standard investment risk tolerance assessment. Results of the assessment help the client and advisor understand the client's attitude toward investment risk and confirm the suitability of the selected investment model. The use of investment models:

- Ensures that clients' funds are invested in a manner appropriate for their risk tolerance, financial goals, and circumstances
- Allows the advisor/portfolio manager and the client to share an understanding about how the advisor is investing the client's funds
- Makes it easy for the client to monitor the investment activities of the advisor and see that the model is being followed as agreed
- Ensures appropriate diversification among investments

2. Restrictions and Special Instructions - Clients may place restrictions on securities or provide special instructions regarding their investments. BWFA will endeavor to honor these restrictions and special instructions. However, clients are advised in the BWFA Service Agreement each client signs that accommodating restrictions and special instructions constitutes an exception to BWFA's normal operating procedure and is therefore subject to occasional unintentional error. Accordingly, clients are encouraged to monitor their accounts and review the trade confirmations and reports they receive from the custodian and from BWFA. Clients are asked to notify BWFA if they observe that BWFA has failed to properly act on restrictions or special instructions that clients have placed on their accounts. It is BWFA's policy to make each client "whole" for any loss or gain a client

sustains as a result of BWFA failing to observe the restriction or special instruction. Making a client "whole" means that BWFA will refund losses to, or remove gains from, the affected account(s).

**D. *Wrap Fee Programs.*** BWFA does not provide a wrap fee program, nor receive fees from any source except its clients. A wrap fee program bundles or wraps investment advice, custody, and execution services under one contract for a single fee. Rather, BWFA chooses to operate in a transparent way where a client is charged specific fees based directly upon the transactions in the client's account.

**E. *Assets Under Management.*** As of February 19, 2020, we provide continuous management services for \$883,007,913 in client assets on a discretionary basis, and \$28,060,389 in client assets on a non-discretionary basis.

## **Item 5 Fees and Compensation**

**A. *Compensation for Advisory Services.*** Clients are provided with written statements of all applicable fees when they sign the BWFA Service Agreement. Fees are outlined below for Financial Planning, Investment Management, and Tax services, which are not negotiable, and for Business Services and Employer-Sponsored Retirement Account Services, some of which are negotiable.

1. **Financial Planning Services** - Fees for financial planning services are fixed and are based on the scope of the project. A client is advised of the fee prior to the time that work begins.

Plan Type	Fee
Financial Blueprint	\$1,500
Retirement Plan	\$5,000
Financial Planning Projects	Variable
Financial Plan Checkup	n/c

Adjustments to fees:

- A 10% discount is provided to APL Federal Credit Union members for a Retirement Plan.
- A 10% discount is provided for JH Federal Credit Union members for a Retirement Plan.

2. **Investment Management Services**

**a. *Portfolio Management*** - The annual fee for portfolio management services is a percentage of the market value of assets under management on the last day of each calendar quarter. Annual investment management fees are not negotiable and are as follows:

1.25% on the first \$500,000 of assets under management 1.00% on assets under management between \$500,000 and \$2,000,000  
0.85% on assets under management between \$2,000,000 and \$5,000,000  
0.75% on assets under management between \$5,000,000 and \$10,000,000  
0.65% on assets under management in excess of \$10,000,000

**b. *Relationship Pricing*** - Investment Management clients who have more than \$ 2 million in assets managed by BWFA are eligible for certain Financial Planning and Tax Services at no fee. Relationship Pricing for Financial Planning applies to preparation of a financial plan



(any type), annual financial plan review, and incidental consultation. Relationship Pricing for Tax Services has a maximum annual value of \$2,000 and applies to annual preparation of the client's individual income tax return (federal and state) and estimated tax calculation. Relationship Pricing will be discontinued, and standard service fees will apply, if the client's assets under management drop below \$1.5 million or BWFA is not actively managing assets at the time service is provided.

3. Tax Services - BWFA offers three different types of tax services. Fees for these services as follows:

- a. *Tax Preparation* - Fees are charged based on the number and type of forms, schedules, and worksheets required to complete a tax return. All new tax clients are provided a fee quotation based on their prior year's tax return. In some instances, additional hourly charges may apply for complex returns. BWFA electronically files client returns at no additional charge.
- b. *Premium Estimated Tax Service* - BWFA may charge an additional fee to compute and facilitate payment of estimated taxes to the appropriate federal and state taxing authorities.
- c. *Tax Planning and other Tax Advisory Services* - Fees may be charged according to the scope and complexity of the project. A client is advised of the fee prior to the time that work begins.

4. Business Services - Fees for BWFA's business services vary based on the type and size of the business and the complexity of the service to be performed. The fee for successfully buying or selling a business is calculated as a percentage of the purchase/sale price of the business. Fees for certain business services are negotiable.

5. Employer-Sponsored Retirement Plan Services - The annual fee for employer-sponsored retirement plan services for small- and mid-sized companies is a percentage of the average daily market value of assets held in plan retirement accounts during each calendar quarter. Annual fees are somewhat negotiable and typically range from 25 to 75 basis points (.25% to .75%) depending on the level of assets in the plan, the number of plan participants, and the type of financial planning services provided to plan participants.

**B. *Payment Method and Frequency of Fees.***

1. Financial Planning clients are billed as follows:

- a. Retirement Plan clients sign a service agreement that includes preparation and presentation of a comprehensive financial plan and access to a financial planning advisor. In addition Retirement Plan clients are entitled to annual Financial Plan updates. Retirement Plan client fees are paid in full at the time of signing the agreement.
- b. Clients are billed for Financial Planning Projects at the time of signing the agreement
- c. Financial Blue Prints are paid in full at the time of signing agreement.

2. Investment Management fees are charged in arrears (apply to the previous quarter). Fees are not prorated for the first quarter (new accounts). Accounts established during a quarter are charged for the full quarter. However, fees are prorated for the last quarter (closing account). Accounts closed during a quarter are charged a prorated management fee for that quarter, based on the number of days the account was open. For example, clients who begin investment management service in February are charged the full quarterly fee at the end of March; clients

who close an account in February will be charged a management fee only for the period during which BWFA provided management services. In some cases, BWFA will charge the management fee incurred on one of a client's accounts to another of the client's accounts. This may occur when the client so requests, or when it is impractical or not possible to charge the fee to the account that incurred the fee as, for example, when the account:

- Has a very small balance (e.g. a child's account)
- Is an employer-sponsored retirement account, such as a 401(k) or 403(b)

Clients receive quarterly investment management invoices that detail how management fees are calculated and charged.

3. Tax Services clients are customarily billed at the completion of the work. In select instances, however, clients whose accounts have been repeatedly delinquent may be required to pay a retainer fee before BWFA commences work on a tax project.

4. Business Services clients are billed for fees incurred. Clients who engage BWFA to aid them in buying or selling a business or obtaining business financing are billed a monthly retainer fee and a success fee at the time of the closing of the purchase/sale of the business or business financing. Clients utilizing other business services are billed one-half at time of signing an agreement and one-half at the completion of the work.

C. Employer-Sponsored Retirement Plan fees are deducted quarterly from participant accounts. At the end of each calendar quarter, fees equal to one-quarter of the annual rate (stated in the BWFA Employer-Sponsored Retirement Plan Service Agreement signed by the employer before plan participants are enrolled) are deducted from participant accounts. Fees are charged in arrears (they cover the previous quarter). The aggregated average daily balance for all plan assets is calculated and then charged to each plan participant on a pro-rata basis (allocated to participants proportionately to their account balances). Fees are calculated on a pro-rata basis for the first quarter (when plan is established) and final quarter (if plan is terminated). *Additional Fees.* The following are other fees or expenses clients may pay:

1. Proxy Voting Services - A separate proxy voting service fee of \$10 per quarter (\$40 per year) is charged to investment management clients who are invested primarily in individual securities. Only one quarterly fee per client is charged to the client's account, regardless of the number of accounts held. This fee is not charged to clients who are primarily invested in collective investments such as mutual funds and exchange-traded funds (ETFs) or clients with less than \$50,000 under BWFA's management. This fee is fully disclosed in the Investment Management Fees section of BWFA's Service Agreement. BWFA utilizes the services of Broadridge, a third-party service provider, to vote proxies on behalf of BWFA clients. See Item 17, page 24 for a discussion of proxy voting.

2. Securities Class Action Filing Service - As described in Item 4 B.2, BWFA utilizes Broadridge to monitor class action shareholder lawsuits and file claims on behalf of its clients to participate in cases where they may be eligible to receive proceeds due to legal settlements. Processing of class action claims are subject to a 20% contingency fee assessed directly by Broadridge, in the event a recovery is made. Accordingly, 80% of the total reimbursement of securities class actions settlements collected by Broadridge is paid directly to the client, while 20% is retained by Broadridge as compensation for managing the filing process. BWFA does not receive any portion Broadridge's 20% contingency fee.

3. Transaction Fees - All BWFA client accounts are held with a custodian, currently TD Ameritrade (except for employer-sponsored retirement accounts and annuities, which are necessarily held with other custodians). For investment management services, TD Ameritrade (TDA) charges transaction fees to client accounts. Though fees are subject to change, transaction fees currently in effect are as follows:

Buy/Sell Individual Security	\$ 0
Buy/Sell Exchange-Traded Fund (ETF)	\$ 0
Buy/Sell Equity Options	\$ 0 + \$ 0.65/contract
Buy/Sell "No Transaction Fee" ETF	\$ 0.00
Buy/Sell Mutual Fund	\$24.00
Buy/Sell "No Transaction Fee" Mutual Fund	\$ 0.00

BWFA has no control over and does not determine the brokerage commission rates paid by its clients. TDA can change their commission rates at any time. The cost of brokerage commissions clients pay to TDA is disclosed in the Investment Management Fees section of the BWFA's Service Agreement. See Item 12, page 17 for a discussion of brokerage practices.

4. Collective Investment Management Fees - Mutual funds and ETFs also charge internal fees, which are disclosed in each fund's prospectus. Such charges are in addition to BWFA's investment management fee. BWFA does not receive any portion of these mutual fund and ETF commissions and fees.

**D. *Fees Paid in Advance.***

1. Investment management fees are not paid in advance.
2. Tax services fees are not paid in advance, unless a client's account has been repeatedly delinquent. In such a case, BWFA may require that the client pay a retainer fee before commencing work on a tax project.
3. A portion of financial planning fees are pre-paid at the time the agreement is signed.

A client can obtain a full refund of pre-paid fees, if the refund request is made by the client before BWFA has begun work on the plan. After work has begun, fees will be prorated based on the amount of work completed, and partial refunds granted accordingly.

4. Several of BWFA's business services require payment of one-half the fee at the time the agreement is signed. The pre-paid fee is not refundable. In addition, a monthly retainer fee is charged for those who engage BWFA to assist with buying or selling a business or obtaining business financing. Retainer fees are not refundable.

**E. Compensation for Sales.** Neither BWFA nor any supervised person accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds, insurance products, or annuities.

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

BWFA does not charge nor accept any performance-based fees (fees based on a share of capital gains or on capital appreciation of the assets of a client). In addition, BWFA is not a side-by-side manager (one that manages both accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as an hourly or flat fee or an asset-based fee). See Item 5, page 8 for a complete discussion of fees charged.

## Item 7 Types of Clients

BWFA clients include individuals, families, trusts, estates, foundations, and religious, charitable, and other non-profit organizations. BWFA does not have a minimum asset size to qualify as a client.

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

**A. *Methods of Analysis and Investment Strategies.*** BWFA's investment strategy is to create diversified client portfolios that earn favorable investment returns while controlling volatility and risk according to the parameters of each client's chosen investment model. Our research methodology includes a thorough examination of a company's strategy and outlook, its unique financial characteristics, and the capabilities of its management. In addition, we consider current economic trends as well as our expectations for the future. As part of our research process to assess a company we review key events, published analyses from various research sources, and other developments that we believe may influence the valuation and long-run suitability of investments.

We work to achieve strong performance over multiple market cycles, endeavoring to select those securities that we believe represent the most attractive opportunities for our clients over the long term. We do not believe that long-term goals can be met by chasing short-term results. Instead we focus on the larger picture while remaining mindful of the current investment environment.

Our core investment time horizon is typically three to five years. Because our investment objective is long-term growth of capital, we focus on investing in securities that we believe are undervalued at the time of purchase and have the potential for growth. A guiding principle is the consideration of equity securities, such as common stocks, as units of ownership of a business that we endeavor to purchase when their price appears low in relation to the value of the total enterprise. We invest in securities of U.S.- and non-U.S.-based companies, and may hold shares in small-, mid-, and large- cap securities.

We typically sell a security when one or more of the following becomes true for a company:

- it shows deteriorating fundamentals
- its valuation appears excessive relative to its expected future earnings
- management has made missteps or changed strategy
- the original thesis for buying the shares no longer applies
- we have accounting-related concerns

Potential investment opportunities are identified utilizing a variety of sources and methods, such as research we perform on other investments (that leads us to consider competitors, related industries, etc.), our investment and economic outlook, and quantitative assessment (based on factors, such as earnings, cash flow, margin analysis, balance sheet strength, etc.) through on-going review of data and research resources.

The tools BWFA may use in its analytical process include: Ycharts, Morningstar, third- party research reports, news from other financial magazines and publications, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, company press releases, and management presentations. In addition, for some companies we may interview management.

BWFA's Investment Committee meets weekly to review selected securities that are on its buy/sell/hold list or securities that committee members may want to add/remove from this list. See Item 13, for a discussion BWFA's buy/sell/hold list and Investment Committee meetings.

BWFA's clients should be aware that there are risks associated with all types of investments, including securities. Investments are not insured or guaranteed.

Investing in securities involves risk of loss that clients should be prepared to bear.

**B. *Material Risks for Each Investment Strategy or Method of Analysis.*** Utilizing a fundamental analytical process provides essential information for choosing high-quality investments for BWFA clients. However, no analysis method can provide an infallible means for choosing investments that will perform well. Past market and industry trends are not necessarily accurate predictors of future behavior or performance. Stock markets tend to move in cycles with periods of rising prices and falling prices. The value of a stock in a client's portfolio may decline due to general weakness in the stock market or because of factors that affect a company or a particular industry. Clients should expect the value of their portfolios to rise and fall. No client should assume that future results will be profitable or correspond directly to the performance results of any comparative benchmark or composite. The investments made by BWFA for their clients carry no guarantee of return or of principal preservation. The foregoing is true not only for stocks and fixed income securities, but (to a lesser extent) for cash and cash equivalents as well.

Though all investments carry risk as outlined above, BWFA strives to invest client funds in a way that reduces market volatility and risk. To that end, BWFA:

- Restricts investments to those approved by the BWFA investment committee
- Diversifies investments among multiple market areas
- Avoids speculative practices, and purchases securities based on a thorough research process
- Controls exposure within a client's portfolio by avoiding "big bets" and limiting purchases and holdings of a single asset to generally 2% to 5% of the total market value of the client's portfolio
- Selects investments with the intent of holding them for a relatively long period of time (generally at least 3 years) unless there are material changes in outlook for the economy or for individual investments
- Utilizes five different investment models that help define the level of risk acceptable in a client's portfolio. Risk is controlled within each portfolio model by specifying the types and percentages of stocks and income investments and the percentage of cash. See Item 4.C(1), page 7, for a more complete discussion of BWFA's use of investment models.

**C. *Recommendation of Particular Types of Securities-*** BWFA only recommends securities that are listed on major public securities exchanges. Following this standard allows for a much higher probability of finding high-quality information on the securities BWFA buys for its clients. It also provides for greater liquidity of investments, allowing securities to be bought and sold without significantly impacting market prices. BWFA does not recommend to clients investments that carry significant or unusual risks (risks beyond those outlined above and inherent in financial market investments).

BWFA recommends that cash and cash equivalents (money market funds and bank deposits) be held as a relatively small percentage of several of its more conservative investment models. BWFA charges investment management fees on the full value of a client's account, including any funds held in cash and cash equivalents. Doing so, helps avoid the potential conflict of interest that could result when determining the appropriate level of cash in a client's portfolio. It is BWFA's policy to keep clients as fully invested as possible, within the guidelines of their chosen investment models, except when BWFA determines that there is an exceptional level of risk in the financial markets.

## **Item 9 Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to an objective evaluation of BWFA or the integrity of BWFA's management. BWFA and its management persons do not have any material legal or disciplinary events to disclose.

- A. *Criminal or Civil Action.*** BWFA and its management persons do not have any material disciplinary information to disclose for this item.
- B. *Administrative Proceeding before the SEC or other Regulatory Agency or Authority.*** BWFA and its management persons do not have any material disciplinary information to disclose for this item.
- C. *Self-Regulatory Organization Proceeding.*** BWFA and its management persons do not have any material disciplinary information to disclose for this item.

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

- A. *Registration as a Broker-Dealer.*** Neither BWFA nor any of its management personnel is registered, or has application pending to register, as a broker-dealer or registered representative thereof. All of BWFA's management personnel who provide investment advice to clients are registered investment advisor representatives and conduct the firm's business using TD Ameritrade (TDA) as the custodian. BWFA operates as an independent corporation and is entirely separate from TDA.
- B. *Registration as a Futures Commission Merchant.*** Neither BWFA nor any of its management personnel is registered, or has application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of one of these entities.
- C. *Relationships.*** BWFA has relationships with the following:
  - 1. **Banking or Thrift Institutions** - BWFA has a relationship with Banking or Thrift Institutions ("Institutions") whereby the credit union co-sponsors events, provides BWFA literature in its branches, publicizes BWFA on its website, and refers prospective clients to BWFA. BWFA does not compensate the Institution for providing exposure or referrals. The director of marketing at the respective Institution is the primary contact. Institution members receive a 10% discount on planning services at BWFA. Institution employees may receive a BWFA financial plan at no charge. Nevertheless, there is no compensation provided by BWFA to any person affiliated with the Institution. BWFA feels its relationship with the Institution does not present a material conflict of interest either for BWFA's clients or for members of the Institution

2. Accountant or Accounting Firm - BWFA has no formal relationship with any accounting firm, however BWFA seeks referrals from accountants and refers clients to accountants when the opportunity arises. No compensation of any kind is involved. BWFA does not feel that any material conflict of interest is present.

3. Lawyer or Law Firm - BWFA has no formal relationship with any law firm, but BWFA seeks referrals from attorneys and refers clients to attorneys when the opportunity arises. No compensation of any kind is involved.

Clients and potential clients should be aware that two of the law firms to which BWFA may refer clients with estate planning needs are Bouland & Brush, LLC, and Davis, Agnor, Rapaport, & Skalny, LLC. An estate planning attorney with Bouland & Brush serves as Trustee for two foundations for which BWFA provides investment management services and, accordingly, from which it receives fees. In addition, an estate planning attorney at Davis, Agnor, Rapaport & Skalny serves as trustee for two trust accounts for which BWFA provides investment management services and, accordingly, from which it receives fees. These relationships could potentially bias BWFA's referral recommendation to a client in favor of these particular law firms. However, no fees are received from or paid to Bouland & Brush, Davis, Agnor, Rapaport & Skalny, or any other law firm or attorney for referrals, and fees paid to BWFA as a result of these relationships are paid by the foundations/trusts, not by the law firms.

Disclosure of this information, BWFA's practice of referring to several estate planning attorneys or using the client's own attorney, along with BWFA's commitment to serve client interests with undivided loyalty, mitigates the potential for bias on the part of BWFA when it makes attorney referrals.

BWFA does not have any relationship or arrangement that is material to its advisory business or to BWFA's clients with any of the following: broker-dealer, municipal securities dealer, or government securities dealer or broker; investment company or other pooled investment vehicle; other investment advisor or financial planner; futures commission merchant, commodity pool operator, or commodity trading advisor; insurance company or agency; pension consultant; real estate broker or dealer; or sponsor or syndicator of limited partnerships.

Note: While BWFA utilizes TDA as custodian for much of its client assets, TDA is not a related person/party of BWFA. BWFA is independent of TDA.

**D. *Other Investment Advisors.*** BWFA receives no compensation directly or indirectly from other investment advisors, nor does it have business relationships with other advisors that create material conflicts of interest.

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

**A. *Code of Ethics.*** BWFA has adopted policies to ensure that investment and trading activities of its individual advisors do not conflict with the interest of BWFA's clients. These rules are pursuant to SEC rule 204A-1 and are summarized in this section. The principal owner and the employees of BWFA believe the successful advisor/client relationship requires both advisors and clients to be open with one another in a way that minimizes the opportunities for surprises and misunderstandings. Accordingly, BWFA's obligations include:

- Identifying both the advantages and disadvantages of recommendations BWFA makes to its clients in the course of fulfilling its advisory duties
- Identifying to clients any conflicts of interest that might exist within the BWFA/client relationship
- Specifically pointing out to clients any issues that might reasonably confuse clients or cause concern

BWFA's service agreement is written with this in mind, and is intended to be clear, concise and complete in every respect.

BWFA considers its Code of Ethics applicable to all of its clients, including those who hire BWFA for Financial Planning Services, Investment Management Services, Tax Services, and/or Business Services. Accordingly, BWFA has adopted the broad Code of Ethics defined by the National Association of Personal Financial Advisors organization (NAPFA). This Code of Ethics, which may be found in its entirety at NAPFA's website <http://www.napfa.org/about/CodeofEthics.asp> demands a high level of objectivity, confidentiality, competence, fairness, integrity, honesty, and professionalism.

In addition to the NAPFA Code of Ethics, BWFA has its own Code of Ethics for all supervised persons of the firm that describes its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts, and personal securities trading procedures, among other things. It is BWFA's policy that each employee serves client interests in a manner that is consistent with the basic fiduciary principals of undivided loyalty, obedience, confidentiality, reasonable care and skill, full disclosure, and full accounting. All employees at BWFA must acknowledge the terms of the Code of Ethics annually, or as amended.

BWFA's clients or prospective clients may request a complete copy of the Advisor's Code of Ethics by contacting BWFA at 410-461-3900.

**B. *Participation or Interest in Client Transactions.*** BWFA (and its related persons/parties) does not recommend to clients, nor buy nor sell for client accounts, securities in which the Advisor or a related person/party has a material financial interest. BWFA does not sell, recommend, or manage securities that are not listed on major public securities exchanges. BWFA believes that the risk associated with dealing in non-exchange-traded securities is inappropriate for the clients BWFA serves. Utilizing only securities that are listed on public securities exchanges lessens the opportunity for trading abuses.

**C. *Personal Trading, Securities.*** BWFA, the corporation, does not invest in the same securities as its clients. However, BWFA encourages its advisors to invest their own personal funds in the same securities as their clients. Nevertheless, opportunities for conflicts of interest can arise when advisors and clients invest in the same securities. Accordingly, BWFA has adopted policies to minimize the possibility that a client might be disadvantaged because an advisor bought, sold, or held the same security as a client.

BWFA maintains an Employee Restricted Securities List (Restricted List) consisting of all stocks on the BWFA buy/sell/hold list and all individual equities under current consideration for addition to BWFA's buy list. Employee personal trades in individual equities on the Restricted List must be pre-approved.

**D. *Personal Trading, Timing.*** BWFA employees are prohibited from the activity known as "front running," a practice where employees place trades (buys or sells) for their own accounts in advance of a large "block" of trades being placed for client accounts. This would be done by an employee in hopes of benefiting personally from the potential change in the price of the security as a result of the block trade. See Item 12.B, for a discussion of block trades. In order to remove this potential conflict of



interest, BWFA has established a policy whereby trades for employees must be included with any block trades made on the same day in the same security. All accounts in the block receive an identical average execution price and the broker's applicable trade commission rate.

BWFA employees are required to hold their own personal investments at the same custodian that holds BWFA client investments - currently TD Ameritrade (TDA) - so that BWFA's chief compliance officer (CCO) can easily review employees' trading activity. Employees must receive prior written approval from BWFA's CCO to hold investments outside TDA. If an employee holds investments outside TDA, s/he is required to provide BWFA's CCO with information that allows the CCO to review the employee's trading activity at the end of each calendar quarter.

## **Item 12 Brokerage Practices**

**A. *Broker-Dealer Selection Criteria.*** Registered investment advisors such as BWFA often utilize multiple broker-dealers to execute their clients' transactions. However, for reasons of simplicity and efficiency, BWFA chooses to primarily utilize only one broker-dealer.

**Evaluation and Choice of Broker-Dealer.** As early as 1991, BWFA evaluated the 4-5 deep discount brokers that it felt would be able to provide accurate and timely services to an independent Fee-Only financial advisor. After careful review, BWFA chose what has become the TD Ameritrade Institutional program, a division of TD Ameritrade, Inc. to provide custody of client assets, trade execution, and clearance and settlement of transactions. As part of the evaluation process, BWFA considered two main criteria: best execution of trades, and quality of the broker's administrative services (see description below). It also weighed broker commission rates. BWFA chose TD Ameritrade (TDA) institutional customer program because it was able to provide the best balance of administrative services and best execution, along with reasonable commission rates. TDA is an SEC-registered broker-dealer, a member of the Financial Industry Regulatory Authority (FINRA), and the Securities Investor Protection Corporation (SIPC). BWFA is completely independent and unaffiliated with TDA and its components.

1. **Best Execution of Trades** - BWFA defines best execution as: (1) timely trade execution, and (2) trade execution at prices that are as close as possible to the prevailing market price at the time the trade is placed. Under normal circumstances, trades submitted by BWFA to the broker should be executed within seconds of the submission. BWFA assumes responsibility for obtaining best execution on behalf of all of its clients.

2. **Quality of Broker's Administrative Services** - BWFA evaluated brokers on their ability to provide accurate and timely essential administrative services to BWFA on behalf of its clients. TDA provides BWFA with certain benefits in recognition of BWFA's valuable business relationship to TDA. The benefits that BWFA receives from TDA are limited to things that help BWFA serve its clients' needs and promote BWFA's business activities. TDA provides the following administrative services that may be of economic benefit to BWFA:

- Ability to handle new account setups, asset transfers, client distributions, gifting, and tax reporting
- Access to an electronic communications network for placing buy and sell transactions and for obtaining client account information
- Daily electronic downloads of security pricing and transactions
- Access to "block trading" (provides the ability to equitably aggregate and allocate the purchase or sale of a security for multiple client accounts - See Item 12.B, page 20 for a discussion of block trades)
- Ability to charge client accounts for BWFA's investment management fees

- Ability to provide information to Broadridge for proxy voting
- Access to a trading desk
- Provision of duplicate client statements and confirmations

In addition, though not currently utilized by BWFA, TDA offers:

- Discounts on compliance, marketing, research, technology, and practice management products or services provided by third-party vendors
- Access to certain institutional money managers

The benefits received by BWFA as outlined above are not dependent on the quantity of brokerage transactions directed to TDA by BWFA. Even though BWFA receives certain economic benefits from utilizing TDA to service its clients' custody and brokerage needs, the investment advice BWFA gives to its clients is in no way linked to BWFA's choice to utilize TDA.

BWFA periodically reviews the suitability of TDA and to date has found that TDA continues to provide the best overall value for BWFA clients. In keeping with a previously held AdvisorDirect agreement with TDA, however, BWFA makes no independent determination as to which custodian/broker is most suitable when the client was referred to BWFA through the TDA AdvisorDirect program. BWFA stopped participating in the TDA AdvisorDirect referral program in September 2014.

### 3. Research and Other Soft Dollar Benefits

a. *Soft Dollar Benefit*- BWFA does not currently participate in any soft dollar agreement. A soft dollar agreement between an advisor and a broker such as TDA would permit the advisor to obtain investment research services with funds allocated to the advisor based on purchases and sales of securities in its clients' accounts. Prior to September 1, 2010, BWFA had a soft dollar agreement with TDA entitling BWFA to 15% of all brokerage commissions paid to TDA by BWFA clients. BWFA used these soft dollars to purchase investment research from firms other than TDA. This soft dollar agreement did not increase commission rates paid by BWFA clients at TDA.

b. *Research and Software Product Benefit* - Rather than participating in a soft dollar agreement, BWFA and TDA have entered into an "Additional Services" agreement that helps defray the cost of investment research, software products, and investment-related services that BWFA uses. Under this agreement, TDA annually pays a portion of BWFA's expenses directly to specific firms: (1) Ycharts, (2) Evestnet Tamarac, (3) Up & Running Office Services, (4) Morningstar By All Accounts, (5) Redtail Technology CRM, Email, and Imaging, and (6) SMARSH. This agreement does not have any effect on the commission rates TDA charges BWFA's clients. All of BWFA's clients benefit to some extent from the investment research, software, and services partially paid for by TDA, whether or not these clients hold accounts at TDA. TDA provides this service to BWFA at its own discretion and at its own expense. BWFA does not pay any fees to TDA for this service. TDA may or may not offer this service to other independent investment advisors. BWFA and TDA have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the additional services provided.

c. *Conflict of Interest*- Clients should be aware of potential conflicts of interest that could arise between BWFA and its clients as a result of the BWFA/TDA "Additional Services" agreement that helps defray BWFA's costs for investment research, software products, and investment-related services that BWFA uses. In providing additional services to BWFA, TDA

most likely considers the amount and profitability to TDA of the assets in, and trades placed for, BWFA's client accounts maintained with TDA. TDA has the right to terminate the Additional Services Addendum with BWFA, provided certain conditions are met. Consequently, in order to continue obtaining the additional services from TDA, BWFA may have an incentive to continue to:

- place trades for client accounts with TDA, and
- recommend that clients custody their assets with TDA

Nevertheless, BWFA feels that this agreement does not constitute a material conflict of interest because the amount of the benefit paid by TDA is only a small percentage of BWFA's income and expenses. In addition, BWFA's receipt of additional services does not diminish BWFA's duty to act in the best interests of its clients, including seeking best execution of trades for client accounts. BWFA endeavors under all circumstances to operate in an open and transparent way with its clients, and place the interests of its clients above all other considerations. (See Item 11- Code of Ethics, page 16)

4. Brokerage for Client Referrals BWFA routinely directs virtually all client transactions to TDA, (except for those in managed retirement accounts or annuities held at custodians other than TDA). BWFA does not select or recommend brokers in return for client referrals. During BWFA's last fiscal year, it directed to TDA all client transactions for accounts held at TDA.

5. Directed Brokerage

a. *Procedure* - Although a registered investment advisor, such as BWFA, may choose to execute trades through more than one broker, for reasons of efficiency and simplicity, BWFA routinely directs virtually all of the trades it executes on behalf of clients to TDA. Because BWFA directs brokerage, it is possible that BWFA may not achieve most favorable execution of client transactions and that its practice may cost clients more money. However, BWFA feels that the potential increased cost to clients is relatively negligible and does not warrant dealing with multiple brokers. In addition, advances in electronic trading markets have significantly narrowed price variations between exchange-listed securities traded by different brokers, so most market participants get very competitive prices. BWFA is not affiliated with TDA and does not have any economic relationship that creates a material conflict of interest. [See potential conflict of interest discussed above in Item 12.A(3)(c), page 19.]

Though BWFA directs virtually all of its trades through TDA, on rare occasions BWFA may direct trades to brokers other than TDA (known as "trade aways"). BWFA does this when it determines that it can get better prices for securities bought or sold outside of TDA. BWFA recognizes that TDA will charge additional fees to process "trade aways."

b. *Client-Directed Brokerage* - BWFA does not permit a client to direct brokerage.

**B. Trade Aggregation.** BWFA may aggregate the purchase or sale of securities for client accounts in "block trades," a practice whereby BWFA places one or several client trades in an aggregated block account where they can be executed as a single unit. Once executed, BWFA then divides the trades in the block account among the participating client accounts. When BWFA uses block trades, all client accounts participate in the trade at an identical average price per share and each client pays the standard commission rate of the custodian. BWFA uses block trades at times when:

- It is more efficient for BWFA advisors/portfolio managers
- There is a possible cost benefit to clients
- It will result in a faster execution that may benefit clients

BWFA may choose not to include some client accounts in block trades when:

- A security's price may be adversely affected by increasing the volume of a trade
- A client's account does not have adequate cash at the time of the block purchase
- The portfolio manager needs additional time to consider a client's account restrictions or special instructions/circumstances
- The portfolio manager believes it may not be in the best interest of the client to acquire or sell a security at the time of the block trade

When BWFA purchases or sells a security for a client outside of a block trade, the purchase or sale may be executed at a price higher or lower than that of other BWFA client accounts executed within the block trade. The custodian's commission rate remains the same whether the trade is executed within or outside of the block trade.

## Item 13 Review of Accounts

**A. Periodic Account Reviews.** BWFA has two levels of account reviews. The first level is at the security/investment level, and the second level is at the account/client level.

Each is explained below.

1. Security/Investment Level Review - BWFA maintains a buy/sell/hold list of approximately 80-100 individual securities. These securities are entered into BWFA's Books and Records. The Investment Committee periodically updates security records and maintains research reviewed in the weekly Investment Management Committee meeting with relevant information and distributes updates electronically to portfolio managers and others within the firm. Information remains available for reference by any member of BWFA's staff. Portfolio managers use this information to select investments for their clients. See Item 4.B(2), page 5, for additional information on BWFA's buy/sell/hold list.

The Investment Committee consists of (at least) the President/Chief Investment Officer, Senior Portfolio Manager, and all Portfolio Managers. They employ a collaborative approach and meet weekly to discuss updates to securities and other relevant market, economic, and investment matters. When considering investments, the team evaluates the investments' potential for capital appreciation and dividend return.

2. Client/Account Level Review

a. *Portfolio Reviews*- Each client's portfolio undergoes a comprehensive review each year. As part of this comprehensive annual review the advisor/portfolio manager generally does the following:

- Reviews the client's investments to ensure they are allocated in accordance with the client's chosen investment model and rebalance investments as needed;

- Verifies that special instructions and investment restrictions are being followed and appear current;
- Verifies that all client holdings are on BWFA's buy/hold list or are noted as exceptions in the client's Redtail profile.

In addition, each taxable portfolio undergoes an annual review to determine if there are opportunities to reduce a client's tax liability, based on individual circumstances and securities held. This tax review takes place in the 4<sup>th</sup> quarter of each year.

b. *Financial Plan Update* - A member of BWFA's financial planning team conducts Financial Plan Reviews as outlined in Item 4.B(1)(c), page 4.

**B. *Non-Periodic Reviews.*** Reviews that occur on other than a periodic basis may be triggered by a number of events, including:

- A change in the economic or market outlook
- A change in the outlook for an individual investment held in a client account
- A significant deposit
- A client request for a cash distribution
- A change in the income distribution amount being sent to the client
- A significant change in the client's circumstances

An account is also reviewed when the advisor/portfolio manager is determining whether the client should be included in an upcoming block trade.

A new account having securities that are not followed by BWFA on a consistent basis undergoes a portfolio review within 90 days after BWFA assumes responsibility for managing the client's funds. (Generally securities not followed by BWFA are sold within one year.) A new account review helps the advisor/portfolio manager determine that holdings are appropriate for the client's situation and goals.

**C. *Client Reports.*** BWFA maintains a portfolio accounting system that contains all transactions and account details, including tax cost basis, pertaining to every client account. Reports provided to clients have been designed to be clear, concise, and complete. BWFA's reports to its clients, along with trade confirmations and detailed monthly statements received by clients from the custodian, enable clients to easily monitor their investments, fees, and investment performance. Each type of report provided by BWFA is described below:

1. Portfolio Statement - This quarterly written report shows every investment the client owns, as well as the quantity, cost, current market value, unrealized gains and losses, the income/dividend yield on the security, and other relevant data. The securities are listed and grouped together in the same order as in the client's investment model, so it is easy for clients to verify that BWFA is managing the portfolio according to the model chosen by the client.
2. Portfolio Performance Summary Statement - This quarterly written report shows the current year's beginning value and the year-to-date figures for additions to and withdrawals from the portfolio, income earned, capital appreciation or loss (realized and unrealized), all management fees paid to BWFA, the account value at the end of the quarter being reported, and the year-to-date investment return. This report allows clients to determine how their investments have performed over the period covered by the report. Performance calculations are based on industry standard time-weighted calculations. Returns are net of fees (calculated after fees have been deducted).

3. Investment Management Invoice - Clients receive a quarterly statement that details the calculations used to compute the quarterly management fee. It also shows how the fee is allocated among the client's accounts.
4. Letter to Clients - BWFA publishes a letter to clients each quarter. The letter typically provides a summary of the influences and market activity of the previous quarter, a discussion of current economic and market conditions, and BWFA's outlook for the coming period. The letter attempts to provide clients with an understanding of the thinking that will guide BWFA's investment strategy in the coming period.
5. Annual Realized Capital Gains and Loss Statement - This annual written statement contains details needed to prepare federal and state income tax returns.

In addition to BWFA reports and statements, clients also receive individual trade confirmations and monthly account statements from the custodian. Detailed monthly account statements include a portfolio summary and a listing of account positions and activity. BWFA recommends that clients compare statements provided by BWFA with statements provided by the custodian, currently TD Ameritrade (TDA) (see Item 15, page 23). Clients can receive their written TDA statements through the mail and/or obtain account information from the custodian's website.

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

**A.** *Economic Benefit from Non-Client for Advisory Services.* As a Fee-Only advisor, BWFA only receives compensation directly from its clients for the services it provides to them. BWFA does not sell insurance products nor earn commissions from buy and sell transactions (as does a broker-dealer). This practice allows BWFA's advisors to offer objective and unbiased recommendations to clients. It avoids the inherent conflicts of interest that exist when a firm receives compensation or economic benefit from a non-client source for providing services to its clients.

**B.** *Compensation for Client Referrals.*

1. BWFA has a client referral program for its employees whereby employees who are investment advisor representatives, but who do not have discretionary authority over client funds, may be eligible to receive compensation for referrals to the firm of prospective clients who become BWFA investment management clients. BWFA pays referring employees a percentage of the client's advisory fees paid to BWFA. This referral fee does not increase the fees paid by the client to BWFA. BWFA charges its standard advisory fees irrespective of whether or not the client was referred to BWFA by an employee. Nevertheless, this program presents a potential conflict of interest, as the employee has a financial incentive to refer a prospective client.
2. As a result of past participation in TD Ameritrade's AdvisorDirect program, BWFA received client referrals from TD Ameritrade (TDA). BWFA participated in the TDA AdvisorDirect program as an independent and unaffiliated investment advisor. BWFA does not have any employment or agency relationship to TDA. In September 2014, BWFA stopped participating in the AdvisorDirect program for purposes of receiving client referrals. Nevertheless BWFA is still obligated to pay TDA an ongoing fee for each successful client relationship established as a result of past referrals. This referral fee is a percentage (not to exceed 25%) of the BWFA investment management &/or financial planning fees charged to the referred client. These referral fees also apply to accounts of immediate family members who were subsequently referred to BWFA by the original TDA-referred client. Referral fees do not increase the fees paid by the client to BWFA. BWFA charges its standard advisory fees irrespective of whether or not the client was referred to BWFA by TDA.

3. As a thank you, BWFA occasionally makes small personal gifts valued around \$100 to clients, to friends of the firm, and to organizations when they refer individuals or organizations that become BWFA clients.

## **Item 15 Custody**

BWFA does not take custody of client funds or securities. All client funds and securities are held at TD Ameritrade (TDA), in Aria annuities, or in clients' employer-sponsored retirement plans. Clients receive monthly statements from TDA, and (at least) quarterly statements from Aria and from employer-sponsored plans confirming transactions and security positions. Clients should carefully review these statements.

Though BWFA does not take custody of client funds, BWFA does have the ability to change client account addresses through websites of some outside retirement accounts. All custodians notify clients whenever address changes are made, with advice being sent to both the old and the new addresses, so clients are aware of the change.

BWFA mails statements quarterly to clients (see Item 13.C, page 21) and encourages clients to compare BWFA statements to custodian statements. BWFA recommends on the bottom of each BWFA quarterly invoice, "Please compare the information set forth in this statement with the statements you receive directly from TD Ameritrade and other custodians to ensure that all account transactions and balances are proper."

## **Item 16 Investment Discretion**

There are three situations where investment discretion is a consideration at BWFA. The first situation exists when we have an agreement to prepare a financial plan for a client.

The second situation exists when we have an agreement to manage investments for a client. The third situation exists when we provide services to a business in connection with an employer-sponsored retirement plan. Each is explained below.

**A. *Financial Plan*** - When we prepare a financial plan for a client, a section of the plan contains our recommendations for a client's BWFA Investment Model. This recommendation is made based on our judgment about many things, including the client's situation, his/her lifestyle goals and needs, our perception of returns available in the financial markets in coming years, inflation, and our client's life expectancy. When preparing a retirement plan for a client, we use Monte Carlo simulation techniques to test the possible outcomes (success rates) of the plan that we recommend when BWFA provides no ongoing oversight or management of a client's investments in this situation.

We send these financial planning clients notices and recommend that they return to BWFA every year for a Financial Plan Review meeting. At review meetings, a member of BWFA's financial planning team reviews the client's current situation and discusses any investments, as appropriate. However, in this situation BWFA does not exercise any direct investment discretion over the client's investments.

**B. *Managed Investments*** - If a client engages BWFA to provide investment management service as indicated on the BWFA Service Agreement, BWFA then exercises full discretion over the investment accounts designated by the client. BWFA's Investment Management Agreement clearly states that BWFA will exercise full discretion over investment decisions. This means that BWFA selects the type and quantity of securities to be bought and sold. In all cases, however, such discretion is exercised in a manner consistent with the client-selected investment model. In addition to executing

BWFA's Service Agreement, each client completes account forms provided by the custodian (currently TD Ameritrade), on which each client indicates by initials that s/he is providing BWFA with a limited power of attorney for full investment discretion. In rare instances, BWFA might agree to have a non-discretionary relationship with a client, in which case the client makes his own investment decisions and directs BWFA to execute trades.

1. Restrictions or Special Instructions - Clients may place restrictions on certain securities or provide special instructions regarding their investments. See Item 4.C(2), page 7 for a full discussion of restrictions and special instructions.
2. When Client Instructions Differ from BWFA's Recommendations - BWFA has full discretionary authority to manage its clients' investments in a manner it believes is most beneficial for its clients. That said, however, it is BWFA's practice to follow the direction of its clients in those uncommon situations where clients direct BWFA to handle their investments in a way that is inconsistent with BWFA's recommendations. In these rare situations, BWFA emphasizes to its clients that it is the clients' responsibility to tell BWFA when they want BWFA to resume exercising full discretionary authority.

For example, if a client directs BWFA to hold 50% of his/her investments in cash, and this direction conflicts with BWFA's current investment recommendations, BWFA will follow the client's direction and hold 50% of the client's investments in cash. BWFA will continue to hold 50% of the client's investments in cash until the client directs BWFA to resume exercising BWFA's full discretion.

**C. *Employer-Sponsored Retirement Plan Accounts*** - BWFA provides a company's employees with a list of available funds and ETFs in which the employees may invest their retirement assets. In addition, BWFA offers sample investment portfolio models with suggested allocations showing how employees could allocate their investments. Employees are free to implement BWFA's suggested allocations or reject them and invest their assets as they choose. BWFA provides no oversight or management of a client's investments in this situation.

## **Item 17 Voting Client Securities**

BWFA assumes authority to vote security proxies for its clients. To assist in this regard, BWFA utilizes the services of a third-party service provider - Broadridge and its ProxyEdge solution. Within Broadridge's open architecture platform, BWFA selected Glass Lewis, a proxy advisory firm, to recommend how to vote proxies so as to best represent shareholder interests. Glass Lewis considers the reputation, experience, and competence of a company's management and board of directors when it evaluates a company and makes voting recommendations. BWFA has the option to vote on a specific issue in accordance with its determination of what is best for its clients, even if it differs from the Glass Lewis recommendation.

Broadridge helps BWFA and its clients to participate effectively in the proxy voting process by:

- Providing thoughtful in-depth analysis of complex proxy proposals
- Providing informed voting recommendations
- Maintaining cost effective operational procedures enabling BWFA and others to execute large numbers of client/shareholder votes
- Allowing more shareholders to participate in the voting process by making the voting process more efficient and easier to execute



BWFA encourages all of its investment management clients with portfolios containing individual securities to assign their proxy voting rights to BWFA. However, clients may opt out and vote their own securities. Once BWFA assumes the authority to vote a client's securities, the client does not have the option of directing a vote in a particular solicitation. Clients may, however, find out how their securities were voted by contacting their BWFA advisor.

By utilizing an independent company such as Glass Lewis to make client proxy voting recommendations, BWFA has sought to minimize possible conflicts of interest between BWFA and its clients with respect to voting client securities. BWFA assumes responsibility for voting proxies for its clients in accordance with its agreement with Broadridge. A copy of the Glass Lewis Policy Guidelines and BWFA's proxy voting policies and procedures will be made available to any client upon request.

A separate proxy voting service fee of \$10 per quarter (\$40 per year) is charged to investment management clients who are invested primarily in individual securities. Only one quarterly fee per client is charged, regardless of the number of accounts held. See Item 5.C(1), page 10 - Proxy voting services.

## **Item 18 Financial Information**

Registered investment advisors are required in this item to provide certain financial information or disclosures about their financial condition.

**A.** *Balance Sheet.* N/A - BWFA does not require nor solicit prepayment of client fees six months or more in advance, and so is not required to include a balance sheet here.

**B.** *Financial Condition.* BWFA has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients.

**C.** *Bankruptcy.* BWFA has never been the subject of a bankruptcy proceeding.

BWFA recognizes that clients have a significant interest in the financial condition of their advisor. Accordingly, BWFA will discuss specifics of its financial condition with any client who makes such a request