



## **Disclosure Brochure**

*(Containing the information required in Part 2A of Form ADV)*

March 12, 2020

### **Towneley Capital Management, Inc.**

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This brochure provides information about the qualifications and business practices of Towneley Capital Management, Inc. ("Towneley"). If you have any questions about the contents of this brochure, please contact us at [info@towneley.com](mailto:info@towneley.com), or at the telephone number above.

As an investment advisor with more than \$100 million under management, Towneley is required by law to register with the SEC. SEC registration does not indicate or imply that Towneley possesses a particular level of skill or training. The information in this brochure has not been approved or verified by the Securities and Exchange Commission ("SEC") or by any state securities authority. Additional information about Towneley Capital Management, Inc. (CRD number 169863) is available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

*Please retain a copy of this brochure for your records.*

## **Item 2 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 the filing of our last annual updating amendment, dated March 11, 2019, we have the following material changes to report:

## **Item 4 Advisory Business**

### **Assets under Management**

As of December 31, 2019, we provide continuous investment management services for \$779,091,955 in client assets on a discretionary basis.

## **Item 5 Fees and Compensation**

### **Other Fee Information**

This paragraph has been revised to reflect a change in the way in which we determine the billed amount upon which our AUM fees are calculated. Previously, our fees that are based on assets under management were calculated on the average of the fair market value of the cash and securities in a client's account on the last day of each of the preceding three months in which the account had a balance greater than zero. . Beginning January 1, 2020 our fees based on assets under management are calculated on the sum of the end-of-day account value for every day the client's account had value during the billing period (the most recently completed quarter or portion thereof), divided by the number of days in the period that the account had value (average daily balance). Our fee schedules and other billing procedures have not changed.

## **Item 12 Brokerage Practices**

### **Broker-dealer Selection**

This paragraph has been revised to reflect TD Ameritrade's elimination of ETF trading fees. Previously the relevant portion, this paragraph read:

"As of the date of this Disclosure Brochure, TD Ameritrade offered over 300 commission-free ETFs, some of which we use in client portfolios. We generally do not trade our ETF strategy accounts any more frequently than quarterly, which helps keep the overall cost of trade commissions down. Although lower trade commissions may be available from other broker-dealers, we have determined that the commission rate TD Ameritrade charges is reasonable in relation to the total quality and reliability of the brokerage, custodial and other services TD Ameritrade provides to us for the benefit of our clients."

The relevant portion of this paragraph now reads:

"As of the date of this Disclosure Brochure, TD Ameritrade offers commission-free ETF trades so we place all ETF trades through TD Ameritrade."

### **Trade Aggregation and Allocation**

This paragraph has been revised to reflect TD Ameritrade's elimination of ETF trading fees by removing reference to a fixed transaction cost of \$6.95 per ETF trade, regardless of whether client trades were aggregated or not.

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## Item 4 Advisory Business

Towneley Capital Management, Inc. ("Towneley," "we," or "us") is an SEC-registered independent investment advisory firm. Wesley G. McCain, Chairman, founded Towneley in 1971. In 2013, we reorganized as a new corporation due to transfer of ownership of the company to an Employee Stock Ownership Plan. Towneley operates as a Delaware corporation. The principal owner of the corporation is the TCM Employee Stock Ownership Trust.

We offer investment counseling, asset management, financial planning, business consulting and fiduciary services on a fee-only basis to individuals, high net worth individuals, trusts, estates, pension and profit sharing plans, nonprofit and charitable organizations, corporations and other business entities ("you" or "client"). We do not sell insurance, annuities or other commission-based financial products.

Approximately 90% of our business is providing investment supervisory services and portfolio review and reporting services as described in Item No. 13: Review of Accounts, below. Approximately 10% of our business is furnishing investment advice through consultation and providing financial planning and consulting services. We do not sponsor or participate in any wrap fee programs.

### ***Investment Advisory Services to Individual Clients***

We tailor our advisory services to the individual needs of each client. We begin our investment advisory relationship by defining your goals and objectives. We become familiar with your investment history, tolerance for risk, time horizon, expected annual contributions and withdrawals and other important factors. We then recommend an asset allocation specifically suited to you.

Once we understand your individual needs and preferences, we use our proprietary models to construct your custom portfolio of no-load mutual funds, exchange traded funds, or a combination of the two. By carefully selecting a variety of domestic and international equity, fixed income and specialty funds, we design a diversified portfolio aimed at furthering your goals with the least possible risk.

When purchasing funds for your account, we may use cost averaging. By establishing equity and some fixed income positions over a period of months rather than all at once, we can achieve an average cost basis lower than the highest price paid, boosting returns. We will recommend a timetable for investing your portfolio based on the types of investments in your portfolio, our analysis of the markets and your preferences.

You may impose reasonable restrictions on the investments in your Towneley portfolio. For example, you may request that investments in a particular asset class, such as emerging market bonds, be excluded from your portfolio and we will honor your request.

We require that our clients give us full discretion to instruct the custodian/broker-dealer to invest cash and to sell and exchange securities in their accounts at any time. However, we never take physical possession of your funds or securities, nor do we have the authority to withdraw or transfer your funds without your express written consent. See Item No. 15: Custody, for more information about custody.

TD Ameritrade Institutional, a division of TD Ameritrade Inc., member FINRA/SIPC/NFA ("TD Ameritrade") and an unaffiliated SEC-registered broker-dealer and FINRA member, provides custodial services to most of our clients. Your portfolio assets are held at TD Ameritrade where they are registered under your account name and tax identification number and are not commingled with the assets of any other client or account.

We encourage you to keep us informed of any changes in work, family, health or other life circumstances that might warrant a reassessment of your investment goals or portfolio allocation. We offer you the opportunity to meet with us annually or more often if you request. These meetings provide an excellent opportunity for you to inform us of changes in your life or your business, and other matters of importance to you.

### ***Investment Advisory Services to Nonprofits and Other Organizations***

We begin our investment advisory relationship by defining and quantifying your goals and objectives.

Our first step is to review your organization's investment policy statement. We work with your investment committee to help revise it, as appropriate. During this process, we talk with you to become familiar with your investment history, tolerance for risk, time horizon, possible projected annual cash flow and other important factors. We then recommend an asset allocation specifically suited to your institution. We manage your accounts in accordance with your investment policy statement. As your organization's needs and goals change and mature, we may recommend further revisions to your investment policies during our periodic meetings with the investment committee and/or board of directors.

Once we understand your organization's needs and preferences, we apply our expertise and proprietary models to construct a custom portfolio of no-load mutual funds, exchange traded funds or a combination of the two. We carefully select a variety of domestic and international equity, fixed income and specialty funds, while honoring any restrictions specified by your IPS. The result is a portfolio aimed at furthering your goals with the least possible risk.

When purchasing funds for your account, we may use cost averaging. By establishing equity and some fixed income positions over a period of months rather than all at once, we can achieve an average cost basis lower than the highest price paid, boosting returns. We will recommend a timetable for investing your portfolio based on the types of investments in your portfolio, our analysis of the markets and your preferences.

You may impose reasonable restrictions on the investments in your Towneley portfolio. For example, you may request that investments in a particular asset class, such as emerging market bonds, be excluded from your portfolio and we will honor your request.

We require that our clients give us full discretion to instruct the custodian/broker-dealer to invest cash and to sell and exchange securities in their accounts at any time. However, we never take physical possession of your funds or securities, nor do we have the authority to withdraw or transfer your funds without your express written consent. See Item No. 15: Custody, for more information about custody.

TD Ameritrade provides custodial services to most of our clients. Your portfolio assets held at TD Ameritrade are registered under your account name and tax identification number and are not commingled with the assets of any other client or account.

We encourage you to keep us informed of any changes in your organization's circumstances that might warrant a reassessment of investment goals or objectives. We also schedule periodic client meetings, which provide an excellent opportunity for you to discuss with us any developments that may affect your asset allocation and the management of your portfolio.

The Fiduciary Edge™, our investment advisory and consulting solution for nonprofit institutions, includes several value-added services that help nonprofit board and committee members to discharge prudently their fiduciary duties. Our solution for nonprofit institutions helps board and investment committee members maintain best practices as investment stewards in compliance with the Uniform Prudent Management of Institutional Funds Act. The Fiduciary Edge™ program is included in Towneley's investment advisory fee for nonprofit institutions who are Towneley investment advisory clients, and is offered on a stand-alone basis to other nonprofit organizations for a flat and/or hourly fee.

### ***Investment Management Services to Charitable Trusts***

We serve as investment manager for several types of charitable trusts. We collaborate with experienced, knowledgeable trustees and trust administrators to offer comprehensive, full service, charitable trust management and administration to educational institutions and other nonprofit organizations. We assume fiduciary responsibility for the prudent investment of the charitable trust

assets, freeing the trustee and remainder beneficiary from the investment management duties and corresponding potential liability.

### ***Investment Advisory Services to Qualified Retirement Plan Sponsors***

#### **Retirement plan consulting**

We provide retirement plan consulting services to employer plan sponsors on a one-time or ongoing basis. Generally, such retirement plan consulting services consist of assisting employer plan sponsors in establishing, monitoring and reviewing their company's participant-directed retirement plan. As the needs of the plan sponsor dictate, areas of consulting could include investment options, plan structure and participant education. With respect to these services, we acknowledge in our Investment Advisory Agreement for Qualified Plans that we are a fiduciary within the meaning of Section 3(21) of ERISA.

#### **Retirement plan asset management**

We provide retirement plan asset management services on an ongoing basis. Generally, such asset management services consist of selecting, monitoring, removing, and/or replacing the investment options under the plan, consistent with the objectives, written guidelines and/or investment objectives set forth in the written investment policy statement accepted and adopted by the client. As the needs of the plan sponsor dictate, areas of management could include plan investment options, asset allocation, plan structure, and participant education. With respect to these services, we acknowledge in our Investment Advisory Agreement for Qualified Plans that we are a fiduciary within the meaning of Section 3(38) of ERISA.

### ***Financial Planning and Consulting Services***

In addition to investment counseling and management, we offer financial planning and consulting services to our clients and prospective clients. Our services include:

#### **Pre-retirement planning**

We help you determine whether your current retirement goals are attainable or may need some adjustment, suggest how much you should accumulate to retire when and as you would like, and where you should be saving your money, e.g. in an IRA, 401(k) and/or a taxable account.

#### **Post-retirement distribution planning**

When you are ready to retire, and periodically during your retirement years, we use our proprietary analytical tools to help you determine how much you can withdraw from your invested assets without outliving your money.

#### **Spending and budget analysis**

We evaluate your income and expenditures and provide you with an analysis that includes our suggestions for reducing spending and increasing savings. Although we do not provide specific tax advice, our analysis may include suggestions that can help reduce your taxes. If appropriate, we can also evaluate your mortgage or other outstanding loans and help you determine if you might benefit from refinancing or from discharging those debts sooner than scheduled.

#### **College cost analysis and planning**

We use proprietary analytical tools to estimate how much you should save for future college expenses depending on which college you ask us to target, and other variables. We can also recommend the best type of account to hold your college savings and help you determine the appropriate asset allocation for that account.

#### **Business consulting**

Under certain circumstances we may offer business and financial consulting services to small businesses. The services provided are tailored for specific client situations. We tailor our financial planning and consulting services to your needs.

## **Assets under Management**

As of December 31, 2019, we provide continuous investment management services for \$779,091,955 in client assets on a discretionary basis.

## **Item 5 Fees and Compensation**

Towneley offers all of its services on a fee-only basis, which may include hourly and/or fixed fees, as well as fees based upon assets under management. Our compensation comes solely from our clients; we do not receive any compensation from third parties. Neither Towneley, nor any of its supervised persons, officers or employees, accepts compensation or other incentives for the sale of securities, including asset-based sales charges or service fees from the sale of mutual funds.

### **Investment Advisory Fees for Individual Clients**

Towneley generally requires initial minimum account assets of \$2 million for its discretionary investment advisory services. Towneley's annual fee for discretionary investment advisory services varies (from 0.30% up to 1.00% of the total assets under management) with a minimum annual fee of \$5,000. Clients whose assets under management fall below \$500,000 may pay an annual fee that exceeds 1%.

Towneley may charge a lesser investment management fee and/or reduce or waive its annual minimum fee or asset level based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

### **Financial Planning and Consulting Services Fees**

In Towneley's discretion, Towneley may provide financial planning and/or consulting services (including investment and non-investment related matters) on a stand-alone, separate fee basis. Towneley's financial planning and consulting fees are negotiable, but generally begin at \$500 on a flat fee basis, depending upon the level and scope of the services required, and the professional(s) rendering the service(s). At its discretion, Towneley may also provide hourly financial planning and/or consulting services. The hourly charge for these services will range from \$150 to \$350 depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s).

We also offer consulting and planning services to small businesses. Fees for these services are negotiable and will be based on the services contracted for and the complexity and needs of the client. They may be offered as a one-time fee or as a monthly retainer.

### **Investment Advisory Fees for Nonprofits and Other Organizations**

Towneley generally requires initial minimum account assets of \$2 million for its discretionary investment advisory services and its Fiduciary Edge™ program. Towneley's annual fee for discretionary investment advisory services and the Fiduciary Edge™ program varies (from 0.25% up to 1.00% of the total assets under management) with a minimum annual fee of \$5,000. Clients whose assets under management fall below \$500,000 may pay an annual fee that exceeds 1%.

Towneley may charge a lesser investment management fee and/or reduce or waive its annual minimum fee or asset level based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

### **Fiduciary Edge™ Program Fees for Nonprofit Institutions (Stand-Alone)**

To the extent requested by the client, Towneley may offer its Fiduciary Edge™ program, to nonprofit organizations on a stand-alone, separate fee basis. Towneley's fees for this program are negotiable, but generally begin at \$2,500 on a flat-fee basis, depending upon the level and scope of the services required, and the professional(s) rendering the service(s). At its discretion, Towneley may also provide hourly fiduciary consulting services. The hourly charge for these services is \$500.



***Investment Management Fees for Charitable Trusts***

Towneley's annual fee for discretionary investment management of charitable trust assets varies (from 0.30% up to 1.00% of the total assets under management), with a minimum annual fee of \$500 per trust. In its discretion, Towneley may charge a lesser investment management fee and/or reduce or waive its annual minimum fee.

***Investment Advisory Fees to Qualified Retirement Plan Sponsors***

The fee-paying arrangement for retirement plan consulting and asset management services is determined on a case-by-case basis and is detailed in our Investment Advisory Agreement for Qualified Plans. The type and amount of fees charged to the plan sponsor are generally based on the size and complexity of the plan, the number of plan participants, the location of the participants, the estimated number of meetings required, and other factors that we may deem relevant. We charge an annualized fee of 0.050% to 1.00% of the plan's assets for retirement plan consulting and asset management services, subject to our minimum annual fee of \$5,000. In lieu of an asset-based fee, we may charge a fixed fee ranging from \$5,000 to \$100,000. Generally, a fixed fee will not exceed 1.00% of the plan's assets unless the plan's assets fall below our minimum account size of \$500,000. An estimate of the total cost will be determined prior to the start of the advisory relationship. We invoice the plan sponsor directly for our asset-based fees, which are generally payable quarterly in advance.

***Other Fee Information***

All of our fees that are based on assets under management are charged quarterly, payable in advance, calculated on the sum of the end-of-day account value for every day your account had value during the billing period (the most recently completed quarter or portion thereof), divided by the number of days in the period that the account had value (average daily balance).

We prefer that you authorize the custodian to deduct our advisory fees directly from your account(s), although you may elect instead to pay our fees by check. We do not accept payment of our fees by credit card. See Item No. 15: Custody for a list of the procedures we have in place to provide for the direct debiting of advisory fees from client accounts. We reserve the right to adjust our fee schedule, waive our minimum fee, or waive the minimum account size for an account depending on, among other things, the size and type of account, our historical relationship with the client, our management of related accounts and account composition. As a result, some clients may pay lower fees for our services than are reflected in this Disclosure Brochure. In addition, lower fees for comparable services may be available from other investment advisors.

***Fund Expenses and Transaction Charges***

We offer two different investment management programs: our Multiple Mutual Fund Strategy ("MMFS") and our Exchange Traded Fund ("ETF") strategy. MMFS clients may incur fund-based costs and transaction charges different from those incurred by ETF strategy clients.

***MMFS***

In addition to our advisory fees, as an MMFS client you will incur the underlying expenses of the no load mutual funds held in your portfolio. Mutual fund expenses include management fees (paid to the unaffiliated fund managers), 12b-1 fees (for distribution and advertising), administrative fees and any other asset-based costs incurred by the fund. The mutual fund expense ratio, normally expressed as a percentage, reflects the ratio of fund expenses to fund assets. Mutual fund expense ratios do not reflect sales loads, redemption fees, or transaction fees, if applicable. Although we attempt to avoid using funds that charge 12b-1 fees, our research analysts may occasionally determine that a particular fund is a good choice for client portfolios even though that fund charges a 12b-1 fee. We do not accept 12b-1 fees. In the event our research analysts select a fund that charges a 12b-1 fee, the fund company retains the fee.



To discourage market timing, some of the funds we use may charge short-term redemption fees of up to 2% that apply to sales within 12 months of purchase. You pay redemption fees, wire fees and overnight check charges, when incurred.

While we attempt to only use funds that do not include transactions fees, you are responsible for paying any open-end mutual fund trading costs incurred in your portfolio. From time to time, our research analysts may add one or more ETFs or closed-end funds to your MMFS account portfolio. In that event, you pay the costs incurred in trading the ETFs and closed-end funds (see discussion below).

### **ETF Strategy**

As an ETF strategy client, you will incur the underlying expenses of the exchange traded and closed-end funds in your portfolio in addition to our advisory fees. ETF and closed-end fund expenses include management fees paid to the managers of the ETFs and closed-end funds in your portfolio. A fund's expense ratio, normally expressed as a percentage, reflects the ratio of fund expenses to fund assets. ETF and closed-end fund expense ratios do not reflect transaction costs, if applicable.

Because ETFs and closed-end fund shares trade like stocks, you may pay a transaction cost associated with each trade, called a "trade commission." Clients whose accounts are held at TD Ameritrade may pay a trade commission for ETF and closed-end fund trades. TD Ameritrade's clearing agent deducts the trade commission from each client's account at the time we place the trade. Clients pay the same trade commission whether their trades are aggregated with those of other clients or not. See the discussions of both TD Ameritrade and Trade Aggregation in Item No. 12: Brokerage Practices, below.

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

Neither we, nor any of our supervised persons, staff members or employees, receive from any client performance-based fees based on a share of capital gains on or capital appreciation of the assets of the client.

## **Item 7 Types of Clients**

We have the following types of clients: individuals, high net worth individuals, trusts, estates, pension and profit sharing plans, nonprofit and charitable organizations, insurance companies, corporations and other business entities.

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

The primary investment strategies we use to implement our investment advice to our clients are long-term purchases (securities held at least one year) and short-term purchases (securities sold within one year). We do not use frequent trading (purchase and sale within 30 days) or market timing strategies. Investing in all types of securities involves risk of loss. You should be prepared to bear these risks. Your investment in either our MMFS or our ETF strategy may lose money over the short or long term.

### **MMFS**

We designed our MMFS to be a complete, diversified global investment strategy appropriate for most investors. Our MMFS research analysts screen several thousand mutual funds using various criteria, including performance in both up and down markets, risk profile, volatility, fund manager tenure and experience and expense ratios and other fees. They then select approximately 18-25 funds from among those screened for inclusion in client portfolios. Analysts select each fund for its contribution to the portfolio in terms of market size, industry weightings, performance in up and down markets and geographic emphasis. Our research analysts attempt to select funds that have a low correlation to one another with the goal of generating higher total portfolio returns over the long term. Although our MMFS works best for long-term investors, we can tailor the strategy to suit investors with shorter time horizons.

The primary risk associated with an investment in the MMFS is market risk. Market risk is the possibility that stock or bond prices overall will decline over short or even extended periods. Although helpful in reducing market risk, portfolio diversification cannot eliminate it.

### **ETF Strategy**

We designed our ETF strategy to compliment an investor's existing portfolio, and thus this strategy may not be appropriate for all investors. Our investment process for our ETF strategy is twofold. We invest fifty percent (50%) of the portfolio in broad market ETFs, with a small portion in commodities. Commodities include currencies, precious metals, real estate and other commodities. The remaining 50% of the strategy we invest using our proprietary global asset allocation model. We assign asset category weights based on the relative value of each asset category worldwide.

The primary risks associated with an investment in the global balanced strategy are market risk (as defined above) and currency risk. Currency risk is the possibility that returns may be lower for Americans investing in foreign securities because of a rise in the value of the U.S. dollar against foreign currencies. Currency risk is the same as exchange rate risk.

### **Cash Management**

We currently use TD Ameritrade's FDIC-insured cash fund as the cash sweep vehicle for all client accounts held at TD Ameritrade, rather than one of TD Ameritrade's money market fund sweep options. The TD Ameritrade cash fund is FDIC insured and pays a rate of return similar to that of a bank savings account. Since the TD Ameritrade cash fund is not a mutual fund, it does not pass its operating expenses on to fund participants. Each of the money market fund sweep options available through TD Ameritrade pays a variable rate of return that, depending on market conditions, may or may not exceed the return paid by the TD Ameritrade cash fund. Each money market fund sweep option passes a portion of its operating expenses on to fund participants. None of the money market fund sweep options to which our clients have access through TD Ameritrade is insured or guaranteed by the FDIC, or by any other government agency, and may lose value.

Unless you have a need for a higher cash balance, we aim to keep approximately 1% of your portfolio value in cash. If you are taking regular withdrawals from your portfolio, or you have a short time horizon, we aim to maintain a cash balance sufficient to meet your short-term withdrawal needs. We include your cash balance in the total portfolio value upon which we calculate our advisory fees. See Item No. 5: Fees and Compensation for an explanation of how we calculate our fees.

## **Item 9 Disciplinary Information**

None.

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

We are affiliated through common control and ownership with ITAWA Associates, Inc., a single family office owned and operated by our Chairman, Wesley G. McCain. ITAWA will contract with our firm for services rendered by certain employees, including Dr. McCain. However, we do not expect that any clients of our firm will become clients of ITAWA, as ITAWA's only client is Dr. McCain's family. The family accounts managed by ITAWA and Dr. McCain may trade in the same securities as our clients, but Dr. McCain and other mutual employees of ITAWA are subject to our firm's Code of Ethics as described below.

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

### **Personal Trading**

We have adopted a Code of Ethics ("Code") designed to comply with Rule 204A-1 under the Investment Advisers Act of 1940 ("Adviser's Act"). The Code establishes rules of conduct designed to ensure that our officers, affiliates, directors and employees continue to meet the high ethical standards we have long maintained. Current clients may request a copy of our Code of Ethics at any time by calling us at (800) 545-4442.

### ***Fiduciary Duty***

We based our Code on the principle that we owe a fiduciary duty to all of our clients to put their best interests ahead of our own. Accordingly, the Code prohibits our officers, affiliates, directors and employees from conducting their personal affairs, including their personal securities transactions, in such a manner as to serve their own personal interests at the expense of our clients. In addition, the Code requires that all employees submit periodic reports to our chief compliance officer ("CCO") evidencing their compliance with relevant provisions of the Code. For example, the Code requires that all employees obtain the CCO's approval before participating in an initial public securities offering or a private offering. In addition, all employees with access to client data must report their personal trading activity quarterly and their securities holdings annually.

### ***Restrictions on Personal Securities Transactions***

Any time the staff of an investment advisory firm holds personal investments, the potential for a conflict of interest occurs. Our Code of Ethics does not prohibit our officers, affiliates, directors and employees from personally investing in the same ETFs that we use in client accounts. However, our Code of Ethics requires our officers, directors and employees to refrain from trading an ETF held in their own account within three trading days before and after the day we last traded the same ETF in a client's account.

Every quarter, our compliance officer and CCO review employees' personal trades and compare them to client trades in those same securities. Our compliance officer or CCO may investigate employees' personal securities trading. Our officers, affiliates, directors and employees are required to cooperate with such investigations and any monitoring or other review procedures employed by the compliance department.

We do not participate in principal, cross or agency-cross transactions for or with any client.

### ***Management of Affiliated Accounts***

Certain Towneley employees and/or members of their families maintain MMFS and/or ETF strategy accounts and thus are our clients. To avoid favoritism, client accounts are assigned to a portfolio manager who is not a friend or relative of the client. We do not allow any staff members to manage their own accounts or those of their friends or family members. Whenever possible, our portfolio managers trade employee accounts on an equal basis with all client accounts having a similar strategy and objective. Our Code of Ethics requires our officers, affiliates, directors and employees to put clients' interests ahead of their own interests, and to refrain from favoring one client over any other client.

## **Item 12 Brokerage Practices**

### **Suggestion of Brokers**

We recommend that you establish an account with a brokerage firm with which we have an existing relationship. Such relationships may include benefits provided to our firm, including but not limited to, research, market information, and administrative services that help our firm manage your account(s).

We believe that recommended broker-dealers provide quality execution services for our clients at competitive prices. Price is not the sole factor we consider in evaluating best execution. We also consider the quality of the brokerage services provided by recommended broker-dealers, including the value of research provided, the firm's reputation, execution capabilities, commission rates, and responsiveness to our clients and our firm. In recognition of the value of research services and additional brokerage products and services recommended broker-dealers provide, you may pay higher commissions and/or trading costs than those that may be available elsewhere.

Towneley participates in the institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA (collectively "TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors, like us, services that include custody of

securities, trade execution, clearance and settlement of transactions. We receive some benefits from TD Ameritrade through our participation in the Program.

As disclosed above, we participate in TD Ameritrade's institutional customer program and we may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between our participation in the program and the investment advice we give to our clients, although we receive economic benefits through our participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Advisor participants, like Towneley; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to us by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by our related persons.

Some of the products and services made available by TD Ameritrade through the program may benefit us but may not benefit our client accounts. These products or services may assist us in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help us manage and further develop our business enterprise. The benefits received by us or our personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of our fiduciary duties to clients, we endeavor at all times to put the interests of our clients first. Clients should be aware however, that the receipt of economic benefits by our related persons or us creates a potential conflict of interest and may indirectly influence our choice of TD Ameritrade for custody and brokerage services.

Towneley's president, Tracy Kuntz, serves on the TD Ameritrade Institutional President's Council ("Council"). The Council consists of former members of TD Ameritrade Institutional's Advisor Panel who are independent investment advisors that advise TD Ameritrade Institutional on issues relevant to the independent advisor community. Council members may be called upon periodically to attend meetings and participate on conference calls or outreaches on an as needed basis. Investment Advisors are invited to serve on the Council for an ongoing term by TD Ameritrade Institutional Senior Management. At times, Council members are provided confidential information about TD Ameritrade Institutional initiatives. Council members are required to sign confidentiality agreements. TD Ameritrade does not compensate Council members. The benefits received by Towneley or our personnel by serving on the Council do not depend on the amount of brokerage transactions directed to TD Ameritrade. Clients should be aware, however, that the receipt of economic benefits by us or by our related persons in and of itself creates a potential conflict of interest and may indirectly influence our recommendation of TD Ameritrade for custody and brokerage services.

### ***Soft Dollar Credits***

While, as part of its fiduciary duties, we endeavor at all times to put your interests first, you should be aware that receipt of such products and services creates a potential conflict of interest. As described above, the research products and services provided to us by TD Ameritrade are provided to all investment advisers participating in the Program and are not considered to be paid for with soft dollars. However, costs for particular transactions might be greater than costs associated with other brokers/custodians not providing our firm with research services or products.

We do not earn soft dollar credits on any mutual fund, ETF or any other trade. We do not have any arrangement with any broker-dealer or other third party to use research, research-related products or

other services provided to us on a soft dollar commission basis, nor do we intend to enter into any such arrangements in the future.

### **Broker-dealer Selection**

In selecting or recommending broker-dealers, we do not consider whether Towneley, or its officers, directors or employees, receive or may receive client referrals from the broker-dealer or a third party. We do consider service, cost, timeliness, accuracy, error resolution and reporting, among other factors. We use TD Ameritrade as our broker-dealer for mutual fund and ETF trades because TD Ameritrade's online trading platform is simple and convenient to use.

As of the date of this Disclosure Brochure, TD Ameritrade offers commission-free ETF trades so we place all ETF trades through TD Ameritrade. . To place individual bond trades, we use one of several pre-approved broker-dealers to obtain the bonds that best fit within our ladder strategy at the lowest cost.

### **Directed Brokerage**

Our policy is generally to recommend that all clients establish their accounts with the same custodian (currently TD Ameritrade—see additional disclosures regarding TD Ameritrade above), and for the reasons discussed above, to direct brokerage to TD Ameritrade as well. Not all advisors require their clients to direct brokerage to a particular broker-dealer. By directing brokerage only to TD Ameritrade, we may be unable to achieve the most favorable execution of client transactions and thus may cost clients money.

On rare occasions, we may accept client instructions directing brokerage transactions to a broker-dealer other than TD Ameritrade. However, we will only accept such directed brokerage instructions after we have reviewed and approved the client's written directions, request and reasons for the request, after all applicable regulatory and recordkeeping requirements have been met, and after the client has acknowledged and accepted all of the following disclosures in writing:

- Client is solely responsible for negotiating commission rates and other transaction costs with the directed broker.
- We are not required to effect any transaction through the directed broker if we reasonably believe that to do so may result in a breach of our fiduciary duties.
- The commissions borne by the client may differ from the commissions borne by other Towneley clients that do not direct us to use a particular broker-dealer.
- Client may not necessarily obtain commission rates and execution as favorable as those that may be obtained if we were able to place transactions with other broker-dealers.
- Client may forego benefits that we may be able to obtain for our other clients through, for example, negotiating volume discounts or effecting block trades.

If the client seeks to direct brokerage for an account maintained on behalf of a retirement plan subject to the Employee Retirement Income Security Act of 1974 as amended ("ERISA") or similar government regulation, the client must monitor the services provided by the directed broker to assure that the plan continues to receive best execution and pays reasonable commissions. In addition, the client must make the following representations in writing:

- The directed broker is capable of providing best execution for the account's brokerage transactions;
- The commission rates that the client negotiated are reasonable in relation to the brokerage and other services received by the plan; and
- Any benefits provided by the directed broker are for the exclusive benefit of the plan.



As part of our brokerage and best execution practices, we have adopted and implemented written best execution practices and designated individuals who are responsible for monitoring our trading practices, gathering relevant information, periodically reviewing and evaluating the services provided by broker-dealers including the quality of trade execution, trading costs, overall brokerage relationships, and other factors, and documenting their reviews.

### **Trade Aggregation and Allocation**

We do not aggregate any open-end mutual fund trades for client accounts, as aggregation of such trades is not possible. We aggregate ETF and closed-end fund trades whenever possible so that each security is traded only once for all accounts. We cannot aggregate trades when trading for only one client's account at a time. All clients participating in an aggregated trade receive the same buy or sale price. Clients pay the same trade commission whether we aggregate their trades with those of other clients or not. See Item No. 5: Fees and Compensation for a discussion of ETF trade commissions.

Our policy prohibits any allocation of trades in a manner that our proprietary accounts, affiliated accounts, or any particular client, or group of clients, receive more favorable treatment than other client accounts. TD Ameritrade executes all of our ETF trades, which clear through TD Ameritrade's affiliate, TD Ameritrade Clearing, Inc. After the trades are executed, our portfolio managers use trade order management software to allocate the correct amount of shares to each client. We allocate aggregated trades the same day we place the trades. The custodian calculates the average share price for each security, which the portfolio manager then applies to all accounts. The custodian allocates trading costs among the accounts according to the number of trades executed for each account. Clients may pay a fixed transaction cost per ETF trade, regardless of whether their trades were aggregated or not.

See Item No. 5: Fees and Compensation, above, for an explanation of the trading costs/commissions applicable to client accounts.

## **Item 13 Review of Accounts**

### **Monitoring**

We continually monitor performance, evaluating the funds in your portfolio to make sure that they continue to satisfy the requirements of our strategies. If a change occurs, we replace funds that no longer meet our investment criteria with funds that do. Our portfolio managers and research analysts review all accounts at least quarterly. In addition, our financial planners will review a client's financial plan if the client so requests, or whenever a client informs the planner or portfolio manager that variables relevant to the plan have changed.

We encourage our clients to keep us informed of any changes in work, family, health or other life circumstances that might warrant a reassessment of investment goals. We also schedule annual client meetings. We strive to adhere to each client's asset allocation guidelines and to rebalance or reallocate client portfolios as needed to implement the investment strategy we have developed for the client or to adapt to changes in client needs, goals, risk tolerance or other factors.

### **Reporting**

At least quarterly, we send all clients a written report containing the following information:

- The performance of the portfolio as a whole, performance of the fixed income, equity and commodities components of the portfolio, and performance of several relevant indexes, all for the following periods: year-to-date, one year, three years, five years, ten years and inception-to-date,
- The cost and current market value of individual portfolio assets through quarter's end, and
- Asset class and category breakdowns.

We may send additional reports to plan sponsors, institutional clients and to individual clients with multiple accounts.



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

We have programs in place to compensate our employees for referring clients to us. We pay each employee a "finder's fee" equal to a percentage of all investment management fees paid to us for a period of three years by accounts the employee refers to us. We do not charge any of our clients higher fees in order to recoup these payments. Instead, we pay a portion of the advisory fees generated by each referred client account to the employee making the referral.

## **Item 15 Custody**

We never take physical possession of client assets, nor can we withdraw client assets other than as specifically authorized by the client for the payment of our advisory fees. We do not hold any client assets in our name or in bearer form. A third party independent qualified custodian holds all client cash and securities, which are registered directly in the client's name and under separate account(s) using the client's address as the address of record. TD Ameritrade will send client account statements, at least quarterly, to each of our clients for whom TD Ameritrade maintains funds or securities. Clients should carefully review the statements they receive from TD Ameritrade and compare the information in those statements to the information contained in the reports they receive from us. We urge our clients to contact us to discuss any questions they may have about information in either their TD Ameritrade statements or their Towneley reports.

### ***Direct Debiting of Client Accounts for Payment of Advisory Fees***

We prefer that our clients authorize the custodian to deduct our advisory fees directly from their account(s), although clients may specifically request otherwise in writing. Under applicable SEC rules, we are deemed to have custody of the account assets of those clients who authorize us to deduct our fees directly from their accounts, and the majority of our clients have given us that authorization. We have the following procedures to provide for the direct debiting of client accounts for advisory fees:

The authority to deduct advisory fees from a client's account is included both in our investment advisory agreement, which is signed by the client and our president, and in TD Ameritrade's account application form, which is signed by the client.

We charge for our discretionary investment advisory services on a quarterly basis in advance. We provide each client with quarterly reports along with an invoice showing the amount of the fee for the upcoming quarter, the account value on which the fee is based, and the method by which the fee is calculated.

Each quarter, we send a report to the custodian identifying the amount of the fee it should debit from each client's account(s). The custodian sends each client a monthly account statement reflecting all transactions during that period. The quarterly deduction of advisory fees paid to us generally appears on the following monthly statements: January, April, July and October. Occasionally the deduction occurs within the first few days of the following month. In those cases, the deduction would appear on the client's statement for the following month (February, May, August and November).

The following disclosure appears on the quarterly reports to the client: "The information being provided was obtained via methods that are believed to be accurate; however, you should rely on the statements you receive from the account custodian. If there are any inconsistencies between the information provided here and your account statement you should rely on the statement and you should bring such inconsistencies to the attention of your portfolio manager immediately."

### ***Receipt and Return of Certain Client Checks***

Within three (3) business days, we will mail directly to the custodian for deposit to the client's account any check we receive from a client that is either 1) made payable to the custodian or 2) made payable to the client and endorsed by the client (such as a tax refund check). If a client sends us a check payable to Towneley that is not for payment of advisory fees, we will return that check to the client within three (3) business days.

**Trustee**

Towneley's chairman and founder, Dr. Wesley McCain, serves as trustee of an irrevocable trust (Trust A) created by a long-time friend and former Towneley client for the benefit of the client's son, who is currently a Towneley client. Dr. McCain continues to serve as trustee of Trust A at the beneficiary's request and without receipt of trustee fees. Dr. McCain also serves as co-trustee of a testamentary trust (Trust B) created upon the death of another long-time friend for the benefit of his son.

Trust B became a Towneley client in 2008. Dr. McCain serves as co-trustee of Trust B without receipt of trustee fees. Because he serves as trustee of Trusts A and B at the request of long-time personal friends, Dr. McCain, but not Towneley, has custody of the assets in these trusts.

Dr. McCain's dual position as trustee of Trusts A and B and as chairman of Towneley creates a conflict of interest for both Dr. McCain and Towneley. Dr. McCain may have an incentive to favor Trusts A and B in the provision of advisory services and Towneley (because Dr. McCain is an affiliated person) has a similar incentive. We have put in place controls to address this conflict. Dr. McCain is not the portfolio manager for either Trust A or Trust B, so he cannot place trades in either account. Since Towneley uses a team approach to service client accounts, several staff persons are familiar with Trust A's and Trust B's portfolios and thus are in a position to report any unorthodox trading or other issues to Towneley's President and CCO should such issues arise.

**Asset Transfer Authority**

Our firm or persons associated with our firm may effect asset transfers from a client's account based on the client's written authority to direct dispersal of funds to a designated third party or non-like-titled account on a periodic basis, until such authorization is revoked by the client. An adviser with authority to conduct such transfers is deemed to have access to, and thus custody of, the assets in the client account that is subject to the asset transfer instructions.

**Item 16 Investment Discretion**

We require that our clients grant us full discretionary authority to manage their account(s) as we deem appropriate, which includes the authority to determine the securities to be bought and sold, the amount of such securities, the broker-dealer used to effect the transaction, and the commission rates to be paid, without obtaining specific client consent and subject only to those restrictions that we and the client have agreed upon in writing. This grant of authority is contained in both our investment advisory agreement, which is signed by the client and our president, and in TD Ameritrade's limited power of attorney form, which is signed by the client. The client must sign both of these documents before we will assume discretionary authority to manage the client's account.

Clients may impose reasonable restrictions on the investments in their Towneley portfolio. For example, a client may request that investments in a particular asset class, such as emerging market bonds, be excluded from the client's portfolio and we will honor that request.

**Item 17 Voting Client Securities**

As of March, 2017, we will not vote proxies on behalf of your advisory accounts. At your request, we may offer you advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of applicable securities, you are responsible for exercising your right to vote as a shareholder.

In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case we would forward any electronic solicitations to vote proxies to you via email.

We may vote proxies for clients who were with us prior to March 2017. When applicable, we issue voting recommendations and cast proxy votes strictly in accordance with our pre-determined proxy voting guidelines, which we believe are in the best interests of our clients. A designated employee

votes the proxies with due consideration for our clients' best interests. The designated employee certifies in writing that to the best of his or her knowledge and belief neither he/she nor the firm have a material conflict of interest with the company whose proxies are at issue.

We generally vote with management on routine issues, such as election of directors and ratification of auditors, unless circumstances indicate that to do so would not be in the best interests of our clients. In non-routine or controversial matters, we vote according to our proxy guidelines and in the best interests of our clients. Adhering to pre-determined proxy voting guidelines helps us to avoid conflicts of interest and to ensure that we cast proxy votes in accordance with the best interests of our clients. We do not accept voting directions from clients.

We periodically review our proxy voting policies and procedures to ensure that we vote proxies in the best interests of our clients. We maintain records of our proxy voting policies and procedures, proxy statements received, votes cast on behalf of clients, client requests for proxy voting information, and documents prepared by us that were material in our voting decision.

Upon request, we will provide clients with a copy of our proxy voting policies and procedures and with information about how we voted proxies for the securities in their portfolio. Clients may request such information at any time by calling us toll-free at (800) 545-4442.

### **Item 18 Financial Information**

We are registered with the SEC only, and not with any state securities authority. We do not ask or require any client to prepay more than \$500 in advisory fees six months or more in advance.

Therefore, the SEC does not require us to include a balance sheet with this brochure. We do not have any financial condition that impairs, or is likely to impair, our ability to meet our contractual commitments to our clients. We have never been the subject of a bankruptcy petition.

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

We are a federally registered investment adviser; therefore, we are not required to respond to this item.

### **Item 20 Additional Information**

#### **Your Privacy**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any non-public personal information about you to any non-affiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to non-public personal information about you to employees, who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your non-public personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Contact our main office at the telephone number on the cover page of this brochure if you have any questions regarding this policy.

If you decide to close your account(s) we will adhere to our privacy policies, which may be amended from time to time.

If we make any substantive changes in our privacy policy that would further permit or require disclosures of your private information, we will provide written notice to you. Where the change is based on permitted disclosures, you will be given an opportunity to direct us as to whether such disclosure is acceptable. Where the change is based on required disclosures, you will only receive written notice of the change. You may not opt out of the required disclosures.

If you have questions about our privacy policies contact our main office at the telephone number on the cover page of this brochure and ask to speak to the Chief Compliance Officer.

### **Trade Errors**

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account.

### **Class Action Lawsuits**

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation nor do we initiate or participate in litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you.