



Brochure  
Form ADV Part 2  
February 2021

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**Item 1 Cover Page**

This Brochure provides information about the qualifications and business practices of Lighthouse Financial Management, LLC. If you have any questions about the contents of this Brochure, please contact us at 401-596-3392. 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.

Lighthouse Financial Management, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

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

## **Item 2 Material Changes**

This Brochure dated February 2021, provides information about our qualifications and business practices that we are required to send to prospective clients before we enter into an agreement, and our existing clients within 120 days of the close of each fiscal business year.

Lighthouse has the following material changes to this disclosure brochure since filing the last annual amendment on January 30, 2020:

- Item 9 – Lighthouse has no disciplinary events to disclose.

We will further provide other ongoing disclosure information about material changes as necessary.

The investor can request this Brochure by contacting Maureen J. Poplaski, the Adviser's Chief Compliance Officer, at 401-596-3392 or through our website [www.lighthousefm.com](http://www.lighthousefm.com). Additional information about Lighthouse Management, LLC, is also available via the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Item 4 Advisory Business**

### **Introduction**

Lighthouse Financial Management, LLC ("Lighthouse") is an independent, "fee-only" advisory firm located in Westerly, Rhode Island, that guides individuals and families in the building, preserving, and transferring wealth. Our mission is to assist each client in making informed decisions regarding all aspects of their financial life. Established in 2004, our firm provides personalized financial planning services for individuals, families, trusts, and small businesses.

Our core services include:

1. *Investment Management:* Lighthouse develops a customized investment strategy that matches each client's willingness, need, and ability to accept market risk. To determine the client's desire to take on market risk, Lighthouse uses an initial questionnaire, discussions, and an interactive program based on behavioral research. We provide ongoing management to keep the portfolio consistent with the risk profile by rebalancing the securities that deviate from the target weighting. We adjust the portfolios' allocation as the client's goals, cash needs, and individual tax circumstances change. Lighthouse will also consider modifications to the portfolio to take advantage of and respond to risks associated with the market and economic conditions.
2. *Income Tax Planning:* Lighthouse provides tax planning services designed to help our clients manage their tax liability and implement tax savings opportunities.
3. *Income Tax Preparation:* Lighthouse's affiliate firm, Stephen C. Poplaski, PhD, CPA, CFP®, prepares individual income tax returns at no additional charge for clients who meet asset minimums.
4. *Retirement Planning:* We help our clients determine the savings needed to provide financial independence and adequate resources for their retirement during the accumulation years. After retirement, we use tax-wise strategies for income distribution while monitoring and managing portfolio risk throughout the distribution period.
5. *Risk Management and Insurance:* We evaluate current insurance policies for the adequacy of income and wealth replacement, current and long-term medical care, and liability claims.

Depending on client needs, Lighthouse also assists with:

1. *Cash Management and Budgeting:* The financial planning process often helps clients formulate and implement a spending plan consistent with their needs and available resources. We can assist our clients in establishing a reasonable budget and identifying trouble spots in spending patterns.
2. *Estate Planning:* Lighthouse helps clients find an attorney if they wish to have their current wills updated or need to put new plans in place. Once the plan is in place, we assist clients in implementing the attorney's instructions. As we are not attorneys, we do not draft legal documents.
3. *Employee Benefits and Stock Options:* Many clients need assistance with choosing employer-sponsored benefit plans consistent with their overall financial plan. We help manage the taxes associated with employers' various stock options, i.e., restricted stock units, incentive stock options, non-qualified stock options, employee stock purchase plans, and employee stock ownership plans.
4. *Funding Education Costs:* We advise our clients on how to use tax-wise strategies to provide college funding for children or grandchildren, along with choosing other sources for funding college expenses.

### Planning Process

The financial planning process begins with a comprehensive interview where the advisor and Client discuss immediate needs and establish a financial direction. In conjunction with the interview, each Client completes a Goals Clarification Worksheet to define other specific areas of concern and a Risk Profile Questionnaire that provides an initial insight into their financial attitudes, values, and motivations.

We will request past income tax returns, net worth details, spending history, insurance policies, and existing wills and trusts during the data collection process. Once the data gathering process is complete, the advisor develops a plan that addresses the client's specific goals and objectives. It is the client's responsibility to provide accurate information since the projections made in the financial plan are based on the information the client provides. The client and the advisor will agree on who will be implementing the recommendations.

The financial plan analysis depends highly on the assumptions we make, such as inflation and investment rates of return. There will be differences between the projected and actual results because specific events and circumstances do not occur as expected.

Clients are encouraged to contact Lighthouse if there are any significant changes in their life. The advisor and client will then update and adjust plan recommendations as appropriate.

### Financial Software - eMoney

Lighthouse utilizes eMoney Advisors, a web-based financial and wealth planning system. The financial software provides a separate client website that allows for:

- Vault storage for client documents such as tax returns, wills, insurance policies, etc.
- Financial Connections (allowing aggregation of multiple accounts with daily updating of linked accounts); and
- Income and Spending Summaries

You will be provided with a unique username and password and will be able to monitor your portfolio performance, track spending, and store/view important papers and documents.

### Business Model

Our firm provides services to approximately 110 families and employer-sponsored retirement plans. We have \$149,260,889 under management as of December 31, 2020.

As a "fee-only" advisory firm, we do not receive any commissions from our clients or third parties for investment or product recommendations. We do not receive a fee or other compensation based on a client referral to our business. We do not participate in any wrap fee programs that combine fees for services with commissions.

## **Item 5 Fees and Compensation**

Lighthouse charges an annual fee based on a percentage of client assets under management. The fees are based on the account value at the end of each quarter.

<u>Account Value</u>	<u>Annual Fee</u>
On the first \$500,000	1.00%
On the next \$500,000	.50%

On the next \$1,000,000 to \$5,000,000	.40%
On amounts over \$5,000,000	.25%

Clients can choose to have their fees deducted from their investment accounts or pay their fees directly to Lighthouse. All fees are paid in arrears every quarter. If a client ends the engagement, earned and unpaid fees are due to the date of termination. All clients receive an invoice detailing their fee calculation.

#### Grandfathering of Advisory Fee

Long-standing advisory clients of Lighthouse Financial Management are subject to advisory fees that were in effect at the time the clients entered into the advisory relationship and are allowed to remain at that rate.

#### Family Accounts

Fees for our advisory services can be reduced or waived, at our sole discretion, for family members of Lighthouse Financial Management.

#### Custodian and Mutual Fund Disclosures

No additional fees are paid to the custodian to hold assets. However, clients will pay transaction costs when securities are bought or sold. Although we primarily recommend no-load mutual funds, all mutual funds have built-in expenses that are described in each fund's prospectus. These fees will include a management fee and other fund expenses. These fees are in addition to the management fee charged by the advisor. No one employed or associated with Lighthouse receives any form of compensation for the sale of securities or other investment products. The funds that we recommend can be purchased through other brokers and agents who are not affiliated with us.

Item 12 further describes the factors that the firm considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

#### Financial Software

There is no additional fee to clients for utilizing the eMoney Advisors software.

### **Item 6 Performance**

Lighthouse does not charge performance fees, which are based on a share of capital gains or capital appreciation of client assets.

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

Lighthouse provides services for individuals, families, small businesses, and employer-sponsored retirement plans. Lighthouse requires advisory clients to maintain a minimum account size of \$500,000. For all investment advisory accounts over \$500,000, Lighthouse's affiliated accounting firm, Stephen C. Poplaski, PhD, CPA, CFP® will provide individual income tax preparation at no additional charge. This minimum can be waived in certain circumstances.

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

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

### **Investment Strategies**

Portfolios are managed using mutual funds that are based on empirical evidence and research. Financial research identifies the sources of investment returns, and we believe in using funds that target these sources to help our clients achieve their goals. Traditionally, fund managers either focus on selecting individual securities to beat the market or track an index. We use fund managers who focus on achieving a broadly diversified exposure to the dimensions of higher returns using a low cost, efficient strategy.

The basic tenets under which this policy will be managed include the following:

1. As recognized in the awarding of the 1990 Nobel Prize in Economics, Modern Portfolio Theory will be the philosophical foundation for how the portfolio will be structured and how subsequent decisions will be made. The underlying concepts of Modern Portfolio Theory include:
  - Investors are risk-averse. The only acceptable risk is that which is adequately compensated by potential portfolio returns
  - Markets are efficient. It is virtually impossible to anticipate the market's future direction as a whole or any individual security. It is, therefore, unlikely that any portfolio will succeed in consistently "beating the market."
  - The portfolio's design as a whole is more important than the selection of any particular security within the portfolio. The appropriate allocation of capital among asset classes (stocks, bonds, cash, etc.) will have far more influence on long-term portfolio results than the selection of individual securities. Investing for the long-term (preferably longer than ten years) becomes critical to investment success because it allows the asset classes' characteristics to surface.
  - For a given risk level, an optimal combination of asset classes will maximize returns. Diversification helps reduce investment volatility. The proportional mix of asset classes determines the long-term risk and return characteristics of the portfolio as a whole.
  - Portfolio risk can be decreased by increasing diversification of the portfolio and by lowering the correlation of market behavior among the asset classes selected. (Correlation is the statistical term for the extent to which two asset classes move in tandem or opposition to one another.)
  - Global investments help to minimize overall portfolio risk due to the imperfect correlation between economies of the world. Investing globally has also been shown historically to enhance portfolio returns, although there is no guarantee that it will do so in the future.
  - Equities offer the potential for higher long-term investment returns than cash or fixed-income investments. Equities are also more volatile than bonds in their performance. Investors seeking higher rates of return must increase the proportion of equities in their portfolio while at the same time accepting a greater variation of results (including occasional declines in value).
  - Investment approaches that pick individual securities or time the purchase or sale of investments in the attempt to "beat the market" are highly unlikely to increase long-term investment returns. These approaches are costly and ineffective. Predictions are often wrong,

and managers end up holding the wrong securities and at the wrong time, missing the returns the market can provide.

The underlying approach to managing client portfolios is to optimize the risk-return relationship appropriate to investor's needs and goals. The policy will be to diversify globally, employing a variety of asset classes. Mutual funds or managed portfolios will be used to implement the portfolio, and the chosen asset classes will be periodically rebalanced to maintain consistency with the client's risk/reward profile.

### Methods of Analysis

We choose investments for our clients' portfolio based on the following criteria:

- Past performance, considered relative to other investments having the same investment objective. Consideration shall be given to both performance rankings over various time frames and consistency of performance.
- Costs relative to other funds with like objectives and investment styles.
- The manager's adherence to investment style and size objectives.
- The size of the proposed fund.
- The length of time the fund/manager has been in existence and the length of time it has been under the direction of the current manager(s) and whether or not there have been material changes in the manager's organization and personnel.
- The historical volatility and downside risk of each proposed investment.
- How well each proposed investment complements other assets in the portfolio.
- The current economic environment.
- The likelihood of future investment success relative to other opportunities.
- Potential for income tax costs relative to other funds with like objectives and investment styles.

### Risk of Loss

Lighthouse works with each client to identify their unique willingness, need, and ability to accept the risks of investing in the market. There is no guarantee of reaching a specific investment result or achieving a particular planning goal.

Other risks include, but are not limited to:

*Lack of Liquidity:* Lighthouse monitors the liquidity of client assets in making decisions regarding investments. However, certain investments will have to be held for a substantial period of time before they can be liquidated to the portfolio's greatest advantage.

*Interest Rate Risk:* Prices of bonds, and by extension, mutual funds that hold bonds, tend to move inversely with changes in interest rates. Typically, a rise in rates will adversely affect bond prices.

*Inflation Risk:* This risk, also known as purchasing power risk, is that the ability to buy different quantities of goods and services is dependent upon the changing levels of prices in the economy. For example, if a client wishes to use funds from investments to make a specified purchase at a future date, the price of the item could increase. The inflation in the item's price erodes the purchasing power of the invested sum. Lighthouse's investment strategy includes funds that invest in bond funds where the underlying securities are subject to inflation risk.



*Management and Strategy Risk:* The ability of a portfolio to meet its investment objective is directly related to Lighthouse's investment strategies for portfolios. The investment process used by Lighthouse could fail to achieve client investment objectives and cause investments to lose value.

*Market Sector, Market, and Economic Risks:* Lighthouse's investment strategy could result in significantly over or under exposure to particular industries or market sectors, which could cause a portfolio's performance to be more or less sensitive to developments affecting those industries or sectors. Investments in client portfolios would also be subject to loss based on general economic and market conditions, including inflation and recessions, among other things.

*Foreign Investment Risk:* Also, to the extent that Lighthouse invests in foreign securities or mutual funds holding foreign securities, there are risks specific to foreign investment, such as costs resulting from currency exchange transactions and political, social, and economic factors affecting investments in such markets. Unique risks associated with foreign markets' investments include exposure to currency fluctuations, less liquidity, less developed or less efficient trading markets, lack of comprehensive company information, political instability, and differing auditing and legal standards. Emerging markets tend to be more volatile than the markets of more mature economies and have less diverse and less mature economic structures and less stable political systems than developed countries.

## **Item 9 Disciplinary Information**

Security and Exchange Commission (SEC) registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of an investment advisor or the integrity of the advisor's management team. Lighthouse has no legal or disciplinary events that are material to a client's or prospective client's evaluation of our business or integrity.

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

Stephen C Poplaski is the Managing Member of Lighthouse Financial Management, LLC and is the sole proprietor of Stephen C. Poplaski, PhD, CPA, CFP®, a firm that provides accounting, consulting, and tax preparation services for individuals and business entities. The firm prepares the tax returns for Lighthouse clients as part of the management fee (See Section 2). Stephen C. Poplaski, PhD, CPA, CFP® no longer accepts new clients outside of Lighthouse; however, it has clients who are grandfathered in and are separate and distinct from Lighthouse. This affiliation through ownership creates a financial incentive for Lighthouse to refer clients to the accounting firm if they do not have account minimums that would include tax preparation services. The financial incentive to make successful referrals would create a conflict of interest between the potential clients and Lighthouse. No referral fees are paid or received for the introduction of Lighthouse clients to Stephen C. Poplaski, PhD, CPA, CFP® and vice versa.

Stephen C Poplaski is also an associate professor at Johnson & Wales University at the Harborside campus in Providence Rhode Island. Mr. Poplaski spends approximately 20 hours a month teaching during regular and securities trading hours.

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

### **Code of Ethics**

Lighthouse has adopted a Code of Ethics under Rule 204A-1 under the Investment Advisers Act of 1940. Lighthouse's Code of Ethics describes the firm's fiduciary duties and responsibilities to clients. It sets forth Lighthouse's practice of overseeing supervised persons' personal securities transactions with access to client information. The expressed policy of Lighthouse is that no person employed by Lighthouse shall prefer his or her own interest to that of an advisory client or make personal investment decisions based on the investment decisions of advisory clients. Lighthouse will provide a complete copy of its Code of Ethics to any client upon request. To request this document, clients should contact the Chief Compliance Officer, Maureen J. Poplaski, at Lighthouse's principal address or by phone at (401) -596-3392.

### **Participation or Interest in Client Transactions**

To supervise compliance with its Code of Ethics, Lighthouse requires that anyone associated with this advisory practice with access to advisory recommendations provide initial and annual securities holdings reports and quarterly transaction reports to the firm's Chief Compliance Officer. Lighthouse requires such persons to also receive approval from the Chief Compliance Officer before investing in any initial public offerings (IPOs) or private placements (limited offerings).

### **Privacy**

Lighthouse requires that all individuals must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices. Lighthouse's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. This information includes but is not limited to any information that would identify a person as a client of Lighthouse. Any individual not in observance of protecting the privacy of client information is subject to disciplinary measures. A copy of Lighthouse's Privacy statement is sent to every prospective client and every client on an annual basis.

## **Item 12 Brokerage Practices**

### **Selecting a Broker-Dealer**

In selecting a broker-dealer, Lighthouse looks at several factors: client service, transaction fees, custodial fees, quality of execution, record keeping, and reporting capabilities. Lighthouse will attempt to minimize the total cost for all brokerage services paid by the client. If the total expenses at the selected broker-dealer are higher than can be obtained at another broker-dealer, Lighthouse will determine whether the costs are reasonable due to the quality of service. Lighthouse periodically reviews and evaluates the cost versus benefits of various broker-dealers and will recommend a change if deemed beneficial to our clients. Lighthouse will not select a broker-dealer that refers clients in exchange for a recommendation.

### **Directed Brokerage**

Lighthouse participates in the TD Ameritrade Institutional program. Lighthouse requests that clients direct us to execute transactions through TD Ameritrade as Lighthouse does not have discretionary authority to determine the broker-dealer to be used. If a client is unable or unwilling to transfer an account

to TD Ameritrade, Lighthouse will coordinate services with the client's custodian. The client should understand that if they direct the brokerage to a custodian other than TD Ameritrade, the advisor would be unable to achieve the most favorable execution of client transactions.

#### **Research and Other Soft Dollar Benefits**

Lighthouse receives benefits from TD Ameritrade that are free to all TD Ameritrade clients. These benefits include a service team and manager to assist the advisor with opening accounts, transferring assets, and trading. TD Ameritrade also provides an electronic download of trades, account balances and positions and the ability to deduct advisory fees from client accounts.

Through the TD Ameritrade website, Lighthouse can access market research and data, practice management guides, and software applications, such as rebalancing software and document signing capabilities.

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

All accounts are reviewed periodically for overall adherence to the investment policy agreed upon with the client. Lighthouse provides quarterly investment reports that contain current investment holdings, transaction summaries, and market values. Clients can choose to have their reports delivered by mail or electronically.

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

Lighthouse does not currently engage in solicitation activities as defined by Rule 206(4) -3 of the Investment Advisers Act of 1940 or similar state statutes. Under this rule, the solicitor would be obligated to provide the potential client with a disclosure document that reveals, among other things, the name of the solicitor, the relationship between the advisor and the solicitor and the terms of the compensation. Lighthouse would be obligated to obtain a written acknowledgment from the client that they received the solicitor's written disclosure. It would be necessary for Lighthouse to comply with this rule if the firm paid a direct or indirect fee for client referrals.

Stephen C. Poplaski and Maureen J. Poplaski are members of the National Association of Financial Planners, NAPFA, and are listed on their website's search engine. Lighthouse does not pay an additional fee beyond the fee required for membership, to be listed on this site.

#### **Item 15 Custody**

Our firm currently uses the custodial services provided by TD Ameritrade, an unaffiliated, qualified custodian. TD Ameritrade sends monthly statements and transaction confirmations directly to the client. We encourage clients to compare their TD Ameritrade statements with the quarterly investment reports Lighthouse provides.

The Securities and Exchange Commission deems that an advisor has custody, among other things if they have the authority to withdraw funds or securities from a client's account. With the client's signed permission, Lighthouse can deduct their fees directly from the client's account at TD Ameritrade.

Lighthouse employs measures to ensure that the fee calculation and deduction are accurate and sends clients quarterly billing statements that show fee calculations.

Lighthouse assists their clients with the management of their accounts outside of TD Ameritrade. With written permission from the client, Lighthouse will obtain access to the third-party account. Lighthouse uses this access to select appropriate securities for the client's investment portfolio and monitor these securities' performance. Lighthouse can also enact a fund to fund transfer within the account when rebalancing the client's overall portfolio. Lighthouse does not have the authority to change the client's address or contact information, nor can we direct any funds to be transferred outside of the account.

### **Item 16 Investment Discretion**

Lighthouse requests that clients provide us with written authority to buy and sell securities on their behalf. This investment discretion includes determining which securities should be bought or sold, the amount of each security, and when the sale or purchase of securities should occur.

The client can place limitations on this investment authority. Any limitation of this authority is contained in the client's Investment Policy Statement. Clients can change or amend these limitations at any time by submitting their request in writing

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

Lighthouse does not accept the authority to vote proxies on behalf of their clients. The client or the fund manager has the responsibility to vote client securities. Lighthouse can assist the client with the voting process by providing information when requested.

### **Item 18 Financial Information**

Security and Exchange Commission (SEC) registered investment advisers are required in this Item to provide clients with financial information or disclosures about the adviser's financial condition. Lighthouse has no financial commitment or condition that impairs its ability to meet contractual and fiduciary commitments to its clients and has not been the subject of a bankruptcy proceeding.