



# **THE FINANCIAL ADVISORY GROUP, INC.**

SEC File Number: 801 – 54599

## **Brochure** **Dated: March 26, 2021**

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This Brochure provides information about the qualifications and business practices of The Financial Advisory Group, Inc. (“The Financial Advisory Group”). If you have any questions about the contents of this Brochure, please contact us at (713) 627-7660 or [juan.martinez@finadvisors.com](mailto:juan.martinez@finadvisors.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about The Financial Advisory Group also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

References herein to Financial Advisory Group as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.

## **Item 2           Material Changes**

There have been no material changes made to The Financial Advisory Group, Inc’s (“The Financial Advisory Group”) Part 2A Brochure since our last ADV Annual Amendment filing, made on March 25, 2020.

The Financial Advisory Group’s Chief Compliance Officer, Juan Martinez, remains available to address any questions regarding this Part 2A, including the disclosure additions and enhancements below.

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#### Item 4            **Advisory Business**

- A. The Financial Advisory Group, Inc. is a corporation formed on May 6, 1997 in the state of Texas. The Financial Advisory Group became registered as an Investment Adviser Firm in June 1997. The Financial Advisory Group is principally owned by Richard J. Alphonso. Mr. Alphonso is also The Financial Advisory Group's Chief Executive Officer. Randy Waesche serves as Chairman of The Financial Advisory Group. Steve Estrin is the Chairman of The Financial Advisory Group's Investment Committee. Darryl Nelson is The Financial Advisory Group's President and Chief Operating Officer. Juan Martinez serves as The Financial Advisory Group's Chief Compliance Officer. Steven Rife serves as The Financial Advisory Group's Chief Investment Officer. Nathan Bowen serves as The Financial Advisory Group's Chief Planning Officer.
- B. As discussed below, The Financial Advisory Group offers to its clients (individuals, pension and profit sharing plans, business entities, trusts, estates and charitable organizations, etc.) investment advisory services, and, to the extent specifically requested by a client, tax preparation services, financial planning and related consulting services.

##### **INVESTMENT ADVISORY SERVICES (COMBINED)**

The Financial Advisory Group provides discretionary investment management services, together with planning and consulting services, and, to the extent desired, tax preparation, on a *fee-only* basis. The Financial Advisory Group's annual investment advisory fee for such combined services shall vary (generally up to 2.50% of the total assets placed under The Financial Advisory Group's management) and shall be based upon various objective and subjective factors. (*See also Fee Differential* discussion below)

##### **INVESTMENT MANAGEMENT SERVICES (STAND-ALONE)**

The Financial Advisory Group provides discretionary investment management services on a stand-alone *fee-only* basis. The Financial Advisory Group's annual investment advisory fee is based upon a percentage (%) of the market value of the assets placed under The Financial Advisory Group's management, between negotiable and 1.00% and shall be based upon various objective and subjective factors. (*See also Fee Differential* discussion below)

##### **FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)**

The Financial Advisory Group provides financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone separate fee basis. Prior to engaging The Financial Advisory Group to provide planning or consulting services, clients are generally required to enter into a *Financial Planning Agreement* with The Financial Advisory Group setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the portion of the fee that is due from the client prior to The Financial Advisory Group commencing services. Neither The Financial Advisory Group nor its investment adviser representatives assist clients with the implementation of any financial plan, unless they have agreed to do so in writing.

In addition, The Financial Advisory Group does not monitor a client's financial plan, and it is the client's responsibility to revisit the financial plan with The Financial Advisory

Group, if desired. It shall remain the client's responsibility to promptly notify The Financial Advisory Group if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating or revising The Financial Advisory Group's previous recommendations and/or services.

If requested by the client, The Financial Advisory Group may recommend the services of other professionals for implementation purposes. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from The Financial Advisory Group.

If the client engages any such recommended unaffiliated professional and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. At all times, the engaged licensed professional[s] (i.e. attorney, accountant, insurance agent, etc.), and not The Financial Advisory Group, shall be responsible for the quality and competency of the services provided.

#### **ERISA INVESTMENT MANAGEMENT SERVICES**

The Financial Advisory Group offers pension advisory services to qualified retirement plans, on a discretionary basis, as a 3(38) fiduciary. Client accounts are regulated under the Employee Retirement Income Securities Act ("ERISA"). The Financial Advisory Group may provide discretionary investment advisory services by the direct investing and reinvesting of plan assets. The Financial Advisory Group shall exercise its responsibilities as a 3(38) fiduciary as appropriate, considering each plan's stated objective, liquidity needs, and stated policies and guidelines.

#### **RETIREMENT PLAN CONSULTING**

The Financial Advisory Group also provides retirement plan consulting services, pursuant to which it assists sponsors of self-directed retirement plans with the selection and/or monitoring of investment alternatives (generally open-end mutual funds) from which plan participants may choose in self-directing the investments for their individual plan retirement accounts. In addition, to the extent requested by the plan sponsor, The Financial Advisory Group shall also provide participant education designed to assist participants in identifying how to find an appropriate investment strategy for their retirement plan accounts.

#### **TAX PREPARATION SERVICES (STAND-ALONE)**

The Financial Advisory Group provides tax preparation services on a stand-alone separate fee basis. The Financial Advisory Group's *Investment Management Agreement* and/or *Financial Planning Agreement* shall indicate if the client has determined to engage The Financial Advisory Group to provide tax preparation services.

Although The Financial Advisory Group's Principal, Richard J. Alphonso, in his separate individual capacity is licensed as a Certified Public Accountant and an attorney, Mr. Alphonso does not provide accounting or legal services to any of The Financial Advisory Group's clients, and no corresponding CPA-client or attorney-client relationship is established when Mr. Alphonso is engaged by a client of our firm.

## MISCELLANEOUS

**Limitations of Financial Planning and Non-Investment Consulting/Implementation Services.** As indicated above, to the extent requested by a client, The Financial Advisory Group may provide financial planning and related consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. The Financial Advisory Group does not serve as an attorney, accountant, or insurance agency, and no portion of its services should be construed as legal, accounting, or insurance brokerage services.

Accordingly, The Financial Advisory Group does not prepare estate planning documents or sell insurance products. To the extent requested by a client, The Financial Advisory Group may recommend the services of other professionals for certain non-investment implementation purpose (i.e. attorneys, accountants, insurance agents, etc.). Clients are reminded that they are under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation made by The Financial Advisory Group or its representatives.

If the client engages any unaffiliated recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. At all times, the engaged licensed professional[s] (i.e. attorney, accountant, insurance agent, etc.), and not The Financial Advisory Group, shall be responsible for the quality and competency of the services provided.

**Retirement Rollovers-Conflict of Interest:** A client or prospective client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): (i) leave the money in the former employer's plan, if permitted, (ii) roll over the assets to the new employer's plan, if one is available and rollovers are permitted, (iii) roll over to an Individual Retirement Account ("IRA"), or (iv) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences). If The Financial Advisory Group recommends that a client roll over their retirement plan assets into an account to be managed by The Financial Advisory Group, such a recommendation creates a conflict of interest if The Financial Advisory Group will earn new (or increase its current) compensation as a result of the rollover. No client is under any obligation to rollover retirement plan assets to an account managed by The Financial Advisory Group.

**Third Party Financial Information Aggregators.** The Financial Advisory Group, in conjunction with the services provided by eMoney or other third party financial information aggregators, may also provide periodic comprehensive reporting services which can incorporate all of the client's investment assets, including those investment assets that are not part of the assets managed by The Financial Advisory Group (the "Excluded Assets"). Unless specifically indicated otherwise in writing by The Financial Advisory Group, the client and/or their other advisors that maintain trading authority, and not The Financial Advisory Group, shall be exclusively responsible for the investment performance of the Excluded Assets. The Financial Advisory Group's service relative to the Excluded Assets is limited to reporting and non-discretionary consulting services only, which does not include investment implementation. The Financial Advisory Group does not have trading authority for the Excluded Assets. As such, to the extent applicable to the nature of the Excluded Assets (assets over which the client maintains trading authority vs. trading authority designated to another investment professional), the client

(and/or the other investment professional), and not The Financial Advisory Group, shall be exclusively responsible for directly implementing any recommendations relative to the Excluded Assets.

The Financial Advisory Group shall not be responsible for any implementation error (timing, trading, etc.) relative to the Excluded Assets. In the event the client desires that The Financial Advisory Group provide discretionary investment management services (whereby The Financial Advisory Group would have trading authority) with respect to the Excluded Assets, the client may engage The Financial Advisory Group to do so pursuant to the terms and conditions of the *Investment Advisory Agreement* between The Financial Advisory Group and the client.

The eMoney platform provides access to other types of information and applications including financial planning concepts and functionality, which should not, in any manner whatsoever, be construed as services, advice, or recommendations provided by The Financial Advisory Group. Furthermore, The Financial Advisory Group shall not be held responsible for any adverse results a client may experience if the client engages in financial planning or other functions available on the eMoney platform without The Financial Advisory Group's assistance or oversight.

**Use of Mutual Funds and Exchange Traded Funds.** While The Financial Advisory Group may allocate investment assets to mutual funds and exchange traded funds ("ETFs") that are not available directly to the public, The Financial Advisory Group may also allocate investment assets to publicly-available mutual funds and ETFs that the client could purchase without engaging The Financial Advisory Group as an investment adviser. However, if a client or prospective client determines to purchase publicly-available mutual funds or ETFs without engaging The Financial Advisory Group as an investment adviser, the client or prospective client would not receive the benefit of The Financial Advisory Group's initial and ongoing investment advisory services with respect to management of the asset.

**Sub-Advisory Arrangements.** As an accommodation for our clients, The Financial Advisory Group may engage sub-advisors for the purpose of assisting with the management of its client accounts. The sub-advisor(s) shall have discretionary authority for the day-to-day management of the assets that are allocated to it by The Financial Advisory Group. The sub-advisor shall continue in such capacity until such arrangement is terminated or modified. The Financial Advisory Group will render ongoing and continuous advisory services to the client relative to the monitoring and review of account performance, client investment objectives, and asset allocation. The Financial Advisory Group shall pay a portion of the investment advisory fee received for these allocated assets to the sub-advisor for its sub-advisory services.

**Portfolio Activity.** The Financial Advisory Group has a fiduciary duty to provide services consistent with the client's best interest. As part of its investment advisory services, The Financial Advisory Group will review client portfolios on an ongoing basis to determine if any changes are necessary based upon various factors, including, but not limited to, investment performance, fund manager tenure, style drift, account additions/withdrawals, and/or a change in the client's investment objective. Based upon these factors, there may be extended periods of time when The Financial Advisory Group determines that changes to a client's portfolio are neither necessary nor prudent. Clients

nonetheless remain subject to the fees described in Item 5 below during periods of account inactivity.

**The Practice Advisory Group, LLC.** The Practice Advisory Group, LLC (“Practice Advisory Group”) is a physician practice management company that provides non-investment related administrative services to medical and dental practices. Mr. Alphonso, a principal owner, and investment advisory representative of The Financial Advisory Group, is a 50% owner of Practice Advisory Group. Certain clients of The Financial Advisory Group may also have an ownership interest in Practice Advisory Group and/or utilize the administrative services provided by Practice Advisory Group. No client is under any obligation to invest in or engage the services of Practice Advisory Group.

**Client Obligations.** In performing its services, The Financial Advisory Group shall not be required to verify any information received from the client or from the client’s other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains their responsibility to promptly notify The Financial Advisory Group if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating or revising The Financial Advisory Group’s previous recommendations and/or services.

**Disclosure Statement.** A copy of The Financial Advisory Group’s written Brochure and Client Relationship Summary, as set forth on Part 2A of Form ADV and Form CRS respectively, shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Management Agreement* and/or *Financial Planning Agreement*.

- C. The Financial Advisory Group shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client’s investment objective(s). Thereafter, The Financial Advisory Group shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at any time, impose reasonable restrictions, in writing, on The Financial Advisory Group’s services.
- D. The Financial Advisory Group does not participate in a wrap fee program.
- E. As of December 31, 2020, The Financial Advisory Group had about \$1,082,224,661 in assets under management on a discretionary basis.

## **Item 5            Fees and Compensation**

A.

### **INVESTMENT ADVISORY SERVICES (COMBINED)**

The Financial Advisory Group provides discretionary investment management services, together with planning and consulting services, and to the extent requested, tax preparation services, on a *fee-only* basis. The Financial Advisory Group’s annual advisory fee for such combined services shall vary (generally, up to 2.50% of the total assets placed under The Financial Advisory Group’s management) and shall be based upon various objective and subjective factors, including, but not limited to, the amount of the assets placed under The Financial Advisory Group’s direct management, the amount

of the assets placed under The Financial Advisory Group's advisement (assets that are generally managed directly by the client or by other investment professionals engaged by the client, for which The Financial Advisory Group provides review/monitoring services, but does not have trading authority), the duration of the client engagement, related accounts, the complexity of the engagement, and the level and scope of the overall investment advisory and planning/consulting and/or tax preparation services to be rendered.

As result of the above, similarly situated clients could pay different fees. In addition, similar advisory services may be available from other investment advisers for similar or lower fees. ***See also Fee Differential*** discussion below.

#### **INVESTMENT MANAGEMENT SERVICES (STAND-ALONE)**

The Financial Advisory Group provides discretionary investment management services on a stand-alone, *fee-only*, basis. The Financial Advisory Group's annual investment advisory fee is based upon a percentage (%) of the market value of the assets placed under The Financial Advisory Group's management, generally between negotiable and 1.00% and shall be based upon various objective and subjective factors, including, but not limited to, the amount of the assets placed under The Financial Advisory Group's direct management, the amount of the assets placed under The Financial Advisory Group's advisement (assets that are generally managed directly by the client or by other investment professionals engaged by the client, for which The Financial Advisory Group provides review/monitoring services, but does not have trading authority), the duration of the client engagement, related accounts, and the complexity of the engagement.

As result of the above, similarly situated clients could pay different fees. In addition, similar advisory services may be available from other investment advisers for similar or lower fees. ***See also Fee Differential*** discussion below.

#### **Fee Differentials**

As indicated above, The Financial Advisory Group shall receive an investment advisory fee based upon a percentage (%) of the market value of the assets placed under management (generally, between negotiable and 2.50%). However, fees shall vary depending upon various objective and subjective factors, including but not limited to: the scope of services for which The Financial Advisory Group has been engaged (generally, up to 2.50% for Combined services – up to 1.00% for Stand-Alone Management services), the representative assigned to the account, the amount of assets to be invested, the complexity of the engagement, the anticipated number of meetings and servicing needs, related accounts, future earning capacity, anticipated future additional assets, and negotiations with the client.

As a result, similar clients could pay different fees, which will correspondingly impact a client's net account performance. Moreover, the services to be provided by The Financial Advisory Group to any particular client could be available from other advisers at lower fees. All clients and prospective clients should be guided accordingly. The Financial Advisory Group's Chief Compliance Officer, Juan Martinez, remains available to address any questions that a client or prospective client may have regarding the above fee disparity, impact on account performance, and conflict of interest



### **FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)**

The Financial Advisory Group provides financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone fee basis. The Financial Advisory Group's planning and consulting fees are negotiable, but generally range from \$5,000 to \$60,000 on a fixed fee basis, and from \$100 to \$400 on an hourly rate basis, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s).

### **TAX PREPARATION SERVICES**

The Financial Advisory Group provides tax preparation services. The Financial Advisory Group's tax preparation fees are negotiable, but generally range from \$1,000 to \$12,000 on a fixed fee basis, and from \$100 to \$400 on an hourly rate basis, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s).

- B. Clients may elect to have The Financial Advisory Group's advisory fees deducted from their custodial account. Both The Financial Advisory Group's *Investment Management Agreement* and the custodial/clearing agreement may authorize the custodian to debit the account for the amount of The Financial Advisory Group's investment advisory fee and to directly remit that management fee to The Financial Advisory Group in compliance with regulatory procedures.

In the limited event that The Financial Advisory Group bills the client directly, payment is due upon receipt of The Financial Advisory Group's invoice. The Financial Advisory Group shall deduct fees and/or bill clients quarterly in advance, based upon the fee agreement which shall encompass all client agreements between The Financial Advisory Group and the client. The Financial Advisory Group shall review the client's fee agreement annually, at which time all adjustments to the fee agreement shall be mutually agreed upon.

- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, The Financial Advisory Group shall recommend that Charles Schwab and Co., Inc. ("*Schwab*"), and/or American Funds (American Funds for §529 Plans only) serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as *Schwab* charge brokerage commissions and/or transaction fees for effecting certain securities transactions. In addition to The Financial Advisory Group's investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses).

**Tradeaway/Prime Broker Fees.** Relative to its discretionary investment management services, when beneficial to the client, individual fixed income transactions may be effected through broker-dealers other than the account custodian, in which event, the client generally will incur both the fee (commission, mark-up/mark-down) charged by the executing broker-dealer and a separate "tradeaway" and/or prime broker fee charged by the account custodian (*Schwab* ).

- D. The Financial Advisory Group's annual investment advisory fee shall be prorated and paid quarterly, in advance, per the amount specified in the fee agreement. The *Investment Management Agreement* between The Financial Advisory Group and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Management Agreement*. Upon termination, The Financial

Advisory Group shall refund the pro-rated portion of the advanced advisory fee paid based upon the number of days remaining in the billing quarter.

- E. Neither The Financial Advisory Group, nor its representatives, accepts compensation from the sale of securities or other investment products.

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

Neither The Financial Advisory Group, nor any supervised person of The Financial Advisory Group, accepts performance-based fees.

## **Item 7            Types of Clients**

The Financial Advisory Group's clients shall generally include individuals, business entities, trusts, estates, pension plans, and charitable organizations. The Financial Advisory Group generally requires an annual minimum fee of \$5,000 for investment management services. Therefore, in certain limited cases, clients may pay an annual fee at an effective percentage rate higher than 2.5% (clients with less than \$200,000 in assets under management). However, The Financial Advisory Group, in its sole discretion, may charge a lesser investment management fee or reduce or waive its annual minimum fee based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

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

- A. The Financial Advisory Group may utilize the following methods of security analysis:
- Fundamental – Analysis performed on historical and present data, with the goal of making financial forecasts
  - Cyclical – Analysis performed on historical relationships between price and market trends, to forecast the direction of prices

The Financial Advisory Group may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Options (contract for the purchase or sale of a security at a predetermined price during a specific period of time)

**Investment Risk** – Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by The Financial Advisory Group) will be profitable or equal any specific performance level(s).

Investors generally face the following types of investment risks:

- Interest-rate Risk: Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- Market Risk: The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk may be caused by external factors independent of the fund's specific investments as well as due to the fund's specific investments. Additionally, each security's price will fluctuate based on market movement and emotion, which may, or may not be due to the security's operations or changes in its true value. For example, political, economic and social conditions may trigger market events which are temporarily negative, or temporarily positive.
- Inflation Risk: When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- Reinvestment Risk: This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- Liquidity Risk: Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- Financial Risk: Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

- B. The Financial Advisory Group's methods of analysis and investment strategies do not present any unusual risks.

However, every method of analysis has its own inherent risks. To perform an accurate market analysis, The Financial Advisory Group must have access to current/new market information. The Financial Advisory Group has no control over the dissemination rate of market information; therefore, unbeknownst to The Financial Advisory Group, certain analyses may be compiled with outdated market information, severely limiting the value of The Financial Advisory Group's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

The Financial Advisory Group's primary investment strategies - Long Term Purchases and Short Term Purchases - are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy.

**Options Strategies.** The use of options transactions as an investment strategy involves a high level of inherent risk. Option transactions establish a contract between two parties concerning the buying or selling of an asset at a predetermined price during a specific period of time. During the term of the option contract, the buyer of the option gains the right to demand fulfillment by the seller. Fulfillment may take the form of either selling or purchasing a security depending upon the nature of the option contract. Generally, the purchase or the recommendation to purchase an option contract by the Registrant shall be with the intent of offsetting/"hedging" a potential market risk in a client's portfolio. Although the intent of the options-related transactions that may be implemented by the Registrant is to hedge against principal risk, certain of the options-related strategies (i.e. straddles, short positions, etc), may, in and of themselves, produce principal volatility and/or risk. Thus, a client must be willing to accept these enhanced volatility and principal risks associated with such strategies. In light of these enhanced risks, client may direct the Registrant, in writing, not to employ any or all such strategies for their accounts.

For detailed information on the use of options and option strategies, please refer to the Option Clearing Corp.'s Option Disclosure Document, which can be found at: <http://www.optionsclearing.com/components/docs/riskstoc.pdf>

Hard copies may be ordered by calling 1-888-678-4667 or writing OCC, 1 North Wacker Drive, Suite 500 Chicago, Il 60606.

- C. Currently, The Financial Advisory Group primarily allocates client investment assets among various individual stocks, individual fixed income securities (including municipal bonds), mutual funds, exchange traded funds ("ETFs") and individual bonds on a discretionary basis in accordance with the client's designated investment objective(s). Further, The Financial Advisory Group may utilize derivative securities, including call options and put options, to mitigate risk in underlying securities and/or to produce portfolio income.

## **Item 9           Disciplinary Information**

The Financial Advisory Group has not been the subject of any disciplinary actions.

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

- A. Neither The Financial Advisory Group, nor its representatives, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither The Financial Advisory Group, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.
- C. **Other Licenses/Services.** As indicated above at Item 4, The Financial Advisory Group's Principal, Richard J. Alphonso, in his separate individual capacity is licensed as a Certified Public Accountant and an attorney, Mr. Alphonso does not provide accounting or legal services to any of The Financial Advisory Group's clients, and no corresponding

CPA-client or attorney-client relationship is established when Mr. Alphonso is engaged by a client of our firm.

In addition, Christopher G. Kolenda, JD, CPA, MBA, is a practicing Certified Public Accountant and attorney. However, neither The Financial Advisory Group, nor any of its representatives, recommend Mr. Kolenda to Firm clients for legal or accounting services. Mr. Kolenda's legal and accounting practices are separate and independent of The Financial Advisory Group. The Financial Advisory Group does not supervise Mr. Kolenda's legal or accounting practices, and receives no portion of the fees earned by Mr. Kolenda for such services.

- D. The Financial Advisory Group does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients.

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

- A. The Financial Advisory Group maintains an investment policy relative to personal securities transactions. This investment policy is part of The Financial Advisory Group's overall Code of Ethics, which serves to establish a standard of business conduct for all of The Financial Advisory Group's Representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, The Financial Advisory Group also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by The Financial Advisory Group or any person associated with The Financial Advisory Group.

- B. Neither The Financial Advisory Group nor any related person of The Financial Advisory Group recommends, buys, or sells for client accounts, securities in which The Financial Advisory Group or any related person of The Financial Advisory Group has a material financial interest.
- C. The Financial Advisory Group and/or representatives of The Financial Advisory Group may buy or sell securities that are also recommended to clients. This practice may create a situation where The Financial Advisory Group and/or representatives of The Financial Advisory Group are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a conflict of interest. Practices such as "scalping" (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if The Financial Advisory Group did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, "front-running" (i.e., personal trades executed prior to those of The Financial Advisory Group's clients) and other potentially abusive practices.

The Financial Advisory Group has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of The Financial Advisory Group's employees. The Financial Advisory Group's securities

transaction policy requires that all employees of The Financial Advisory Group must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an employee of the firm. Additionally, each employee must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings at least once annually. Employees are also required to provide the firm with a quarterly transaction report detailing all purchases and sales of securities made in the employee's personal investment account.

- D. The Financial Advisory Group and/or representatives of The Financial Advisory Group *may* buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where The Financial Advisory Group and/or representatives of The Financial Advisory Group are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a conflict of interest. As indicated above in Item 11.C, The Financial Advisory Group has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of The Financial Advisory Group's employees.

## **Item 12      Brokerage Practices**

- A. In the event that the client requests that The Financial Advisory Group recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct The Financial Advisory Group to use a specific broker-dealer/custodian), The Financial Advisory Group generally recommends that investment management accounts be maintained at *Schwab* and American Funds. Prior to engaging The Financial Advisory Group to provide investment management services, the client will be required to enter into a formal *Investment Management Agreement* with The Financial Advisory Group setting forth the terms and conditions under which The Financial Advisory Group shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that The Financial Advisory Group considers in recommending *Schwab* and American Funds (another broker-dealer/custodian, investment platform and/or mutual fund sponsor) include historical relationship with The Financial Advisory Group, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by The Financial Advisory Group's clients shall comply with The Financial Advisory Group's duty to seek best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where The Financial Advisory Group determines, in good faith, that the commission/transaction fee is reasonable. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although The Financial Advisory Group will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, The Financial Advisory Group's investment management fee. The Financial Advisory Group's best execution responsibility is qualified if securities that it

purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

1. **Non-Soft Dollar Research and Benefits**

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, The Financial Advisory Group receives from *Schwab* (or another broker-dealer/custodian, investment platform, unaffiliated investment manager, vendor, unaffiliated product/fund sponsor, or vendor) without cost (and/or at a discount) support services and/or products, certain of which assist The Financial Advisory Group to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by The Financial Advisory Group may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by The Financial Advisory Group in furtherance of its investment advisory business operations.

As indicated above, certain of the support services and/or products received may assist The Financial Advisory Group in managing and administering client accounts. Others do not directly provide such assistance, but rather assist The Financial Advisory Group to manage and further develop its business enterprise.

There is no corresponding commitment made by The Financial Advisory Group to *Schwab* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

**The Financial Advisory Group's Chief Compliance Officer, Juan Martinez, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding conflict of interest.**

2. The Financial Advisory Group does not receive referrals from broker-dealers.
3. The Financial Advisory Group does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and The Financial Advisory Group will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by The Financial Advisory Group. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

In the event that the client directs The Financial Advisory Group to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had

the client determined to effect account transactions through alternative clearing arrangements that may be available through The Financial Advisory Group. Higher transaction costs adversely impact account performance.

Transactions for directed accounts will generally be executed following the execution of portfolio transactions for non-directed accounts.

**The Financial Advisory Group's Chief Compliance Officer, Juan Martinez, remains available to address any questions that a client or prospective client may have regarding the above arrangement.**

- B. To the extent that The Financial Advisory Group provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless The Financial Advisory Group decides to purchase or sell the same securities for several clients at approximately the same time. The Financial Advisory Group may (but is not obligated to) combine or "bunch" such orders to seek best execution, to negotiate more favorable commission rates or to allocate equitably among The Financial Advisory Group's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. The Financial Advisory Group shall not receive any additional compensation or remuneration as a result of such aggregation.

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

- A. For those clients to whom The Financial Advisory Group provides investment supervisory services, account reviews are conducted on an ongoing basis by The Financial Advisory Group's Principals and representatives. All investment supervisory clients are advised that it remains their responsibility to advise The Financial Advisory Group of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with The Financial Advisory Group on an annual basis.
- B. The Financial Advisory Group may conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients receive transaction confirmation notices on all trades and summary account statements directly from the broker-dealer/custodian at least quarterly. The Financial Advisory Group provides a written quarterly report summarizing account holdings and performance.

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

- A. As referenced in Item 12.A.1 above, The Financial Advisory Group receives an economic benefit from *Schwab*. The Financial Advisory Group, without cost (and/or at a discount), receives support services and/or products from *Schwab*.



There is no corresponding commitment made by The Financial Advisory Group to Schwab or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

**The Financial Advisory Group's Chief Compliance Officer, Juan Martinez, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding conflict of interest.**

- B. The Financial Advisory Group does not compensate, directly or indirectly, any person, other than its representatives, for client referrals.

## **Item 15      Custody**

The Financial Advisory Group shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Financial Advisory Group may also provide a written periodic report summarizing account activity and performance.

To the extent that The Financial Advisory Group provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by The Financial Advisory Group with the account statements received from the account custodian.

The account custodian does not verify the accuracy of The Financial Advisory Group's advisory fee calculation.

**Custody Situations:** The Financial Advisory Group engages in other practices and/or services on behalf of its clients that require disclosure at the Custody section of Part 1 of Form ADV, which practices and/or services are subject to an annual surprise CPA examination in accordance with the requirements of Rule 206(4)-2 under the Investment Advisers Act of 1940. The Financial Advisory Group's Chief Compliance Officer, Juan Martinez, remains available to address any questions that a client or prospective client may have regarding custody-related issues.

## **Item 16      Investment Discretion**

The client can determine to engage The Financial Advisory Group to provide investment advisory services on a discretionary basis. Prior to The Financial Advisory Group assuming discretionary authority over a client's account, the client shall be required to execute an *Investment Management Agreement*, naming The Financial Advisory Group as the client's attorney and agent in fact, granting The Financial Advisory Group full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage The Financial Advisory Group on a discretionary basis may, at any time, impose restrictions on The Financial Advisory Group's discretionary authority (i.e., limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe The Financial Advisory Group's use of margin, etc.) and/or request the purchase or sale of a security. Any request for the purchase or sale of a security or notification of restriction on The Financial Advisory Group's discretionary authority must be made in writing.

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

- A. The Financial Advisory Group does not vote client proxies. Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets.
- B. Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact The Financial Advisory Group to discuss any questions they may have with a particular solicitation.

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

- A. The Financial Advisory Group does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. The Financial Advisory Group is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. The Financial Advisory Group has not been the subject of a bankruptcy petition.

**The Financial Advisory Group's Chief Compliance Officer, Juan Martinez, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**