

**Part 2A of Form ADV: *Firm Brochure***

**Item 1      Cover Page**

**Madrona Financial Services, LLC**

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This brochure provides information about the qualifications and business practices of Madrona Financial Services, LLC. If you have any questions about the contents of this brochure, please contact us at 425-212-3777 or [info@madronafinancial.com](mailto:info@madronafinancial.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.

Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

Additional information about Madrona Financial Services, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 115753.

## Item 2    Material Changes

This Firm Brochure provides you with a summary of Madrona Financial Services, LLC's, advisory services and fees, certain business practices and policies, as well as actual or potential conflicts of interest, among other things. This item is used to provide our clients with a summary of material changes from our last annual update.

The following summarizes new or revised disclosures based on information previously provided in our last annual updating amendment in May of 2020.

- We have provided additional detail about the recommendation of insurance products by Madrona affiliates, including premium finance life insurance and other complex products. We encourage you to involve other professionals, such as estate planning attorneys, in your assessment of these products. See Item 5 for additional information.
- We have changed our fees for advice concerning DSTs. We no longer have an agreement in which clients investing in DSTs will engage our CPA affiliate for specific analysis and tax work, in addition to engaging us for investment advice with respect to DSTs. We have implemented a revised fee schedule for DSTs as distinct from liquid assets. See Item 5 for more information.
- We now have individual advisory representatives who are associated with an unaffiliated broker-dealer. Acting as both an investment adviser and a representative creates a conflict of interest, especially with respect to products, such as DSTs, that are frequently sold through brokers and involve commissions. See Item 5 for more information.
- We have clarified that if we choose to except clients with investable assets below our stated minimum of \$500,000 that those clients will generally not be offered “bundled services” without a separate agreement and additional charges. See Item 5 for more information.

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## Item 4      Advisory Business

Madrona Financial Services, LLC ("Madrona") is an SEC-registered investment adviser with its principal place of business located in Washington. We began conducting business in 1999.

Brian Evans is Madrona's sole member, as well as its Manager and Chief Compliance Officer.

Madrona offers the following advisory services to our clients:

### **INVESTMENT SUPERVISORY SERVICES ("ISS") MODEL PORTFOLIO MANAGEMENT**

Our firm provides portfolio management services to clients using model asset allocation portfolios. Each model portfolio is designed to meet a particular investment goal.

**Conservative:** This target asset mix may be appropriate for individuals who seek to minimize fluctuations in market value by taking an income-oriented approach with some potential for capital appreciation, accepting lower returns in exchange for price stability.

**Moderate:** This target asset mix may be appropriate for individuals who seek potential for capital appreciation and some growth and can withstand moderate fluctuations in market value. This portfolio should provide a well-balanced diversification.

**Growth:** This target asset mix may be appropriate for individuals who have a preference for growth and can withstand significant fluctuations in market value, especially over the short term. This model is designed for longer-term investors.

**Aggressive:** This target asset mix may be appropriate for individuals who seek aggressive growth and can tolerate wide fluctuations in market values, especially over the short term. This portfolio is for long-term investors with many years before they intend to withdraw income.

We manage these advisory accounts on a discretionary basis. Account supervision is guided by the client's stated objectives (i.e., maximum capital appreciation, growth, income, or growth and income), as well as tax considerations.

Through personal discussions with the client in which the client's goals and objectives are established, we determine if the model portfolio is suitable to the client's circumstances. Once we determine the suitability of the portfolio, the portfolio is managed based on the portfolio's goal, rather than on each client's individual needs. Clients, nevertheless, have the opportunity to place reasonable restrictions on the types of investments to be held in their account.

Clients retain individual ownership of all securities.

Our investment recommendations are not limited to any specific product or service offered by a broker dealer or insurance company and will generally include advice regarding the following securities:

- Exchange-listed securities

- Securities traded over-the-counter
- Corporate debt securities (other than commercial paper)
- Certificates of deposit
- Municipal securities
- Variable life insurance
- Variable annuities
- Mutual fund shares
- United States governmental securities
- Options contracts on securities
- Options contracts on commodities
- Interests in partnerships investing in real estate
- Interests in partnerships investing in oil and gas interests
- Private placements, typically focused on real estate

Because some types of investments involve certain additional degrees of risk, they will only be implemented/recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

To ensure that our initial determination of an appropriate portfolio remains suitable and that the account continues to be managed in a manner consistent with the client's financial circumstances, we will:

1. send quarterly written reminders to each Model Portfolio Management Services client requesting any updated information regarding changes in the client's financial situation and investment objectives;
2. at least annually, contact each participating client to determine whether there have been any changes in the client's financial situation or investment objectives, and whether the client wishes to impose investment restrictions or modify existing restrictions;
3. be reasonably available to consult with the client; and
4. maintain client suitability information in each client's file.

## **PENSION AND PROFIT-SHARING PLAN CONSULTING SERVICES**

We also provide several advisory services separately or in combination. While the primary clients for these services will be pension, profit-sharing and 401(k) plans, we offer these services, where appropriate, to individuals and trusts, estates and charitable organizations. Pension and Profit-

Sharing Plan Consulting Services are comprised of three distinct services. Clients may choose to use any or all of these services.

*Investment Policy Statement ("IPS") Preparation:*

We may meet with the client (in person or over the telephone) to determine an appropriate investment strategy that reflects the plan sponsor's stated investment objectives for management of the overall plan. Our firm may then prepare a written IPS detailing those needs and goals, including an encompassing policy under which these goals are to be achieved. The IPS would also list the criteria for selection of investment vehicles as well as the procedures and timing interval for monitoring of investment performance.

*Selection of Investment Vehicles:*

We assist plan sponsors in constructing appropriate asset allocation models. We will then review various mutual funds and/or exchange-traded funds (both index and managed) to determine which investments are appropriate to implement the client's IPS. The number of investments to be recommended will be determined by the client, based on the IPS.

*Employee Communications:*

For pension, profit-sharing and 401(k) plan clients with individual plan participants exercising control over assets in their own account ("self-directed plans"), we also provide quarterly educational support and may provide investment workshops designed for the plan participants when the plan sponsor engages our firm to provide these services. The nature of the topics to be covered will be determined by us and the client under the guidelines established in ERISA Section 404(c). The educational support and investment workshops will NOT provide plan participants with individualized, tailored investment advice or individualized, tailored asset allocation recommendations.

## **FINANCIAL PLANNING**

For investors with at least \$500,000 in investable assets, we commonly provide free financial planning services. We hope this will be the first step in a longer-term investment management relationship. We also make financial planning services available to clients as a stand-alone service for a fee. We enter into an Engagement Letter, rather than an advisory agreement, with clients to whom we provide free planning. The Engagement Letter describes the planning services provided, as well as limitations on the free services.

For investors with less than \$500,000 in investable assets, our typical financial planning fee is \$1,200 but that fee can be negotiated. Clients are not required to obtain a financial plan from us.

Financial planning is a comprehensive evaluation of a client's current and future financial state by using currently known variables to predict future cash flows, asset values and withdrawal plans. Through the financial planning process, all questions, information and analysis are considered as they impact and are impacted by the entire financial and life situation of the client. Clients purchasing this service receive a written report which provides the client with a detailed financial plan designed to assist the client to achieve his or her financial goals and objectives.

In general, the financial plan can address any or all of the following areas:

- **PERSONAL:** We can review budgeting, personal liability, estate information and financial goals.
- **TAX AND CASH FLOW:** We can analyze the client's income tax and spending and planning for past, current and future years; then illustrate the impact of various investments on the client's current income tax and future tax liability.
- **INVESTMENTS:** We can analyze investment alternatives and their effect on the client's portfolio.
- **INSURANCE:** We can review existing policies to address proper coverage for life, long-term care and liability.
- **RETIREMENT:** We can analyze current strategies and investment plans to help the client achieve his or her retirement goals.
- **DEATH AND DISABILITY:** We can review the client's cash needs at death, income needs of surviving dependents, estate planning and long-term care.
- **ESTATE:** We can assist the client in assessing and developing long-term strategies, including as appropriate, living trusts, wills, review estate tax, powers of attorney, asset protection plans and nursing homes.

We typically gather required information through in-depth personal interviews. Information gathered includes the client's current financial status, tax status, future goals, return objectives and attitudes towards risk. We carefully review documents supplied by the client, including a questionnaire we supply, and prepare a written report. Should the client choose to implement the recommendations contained in the plan, we suggest the client work closely with his/her attorney, accountant, insurance agent, and/or stockbroker.

If clients choose to implement the plan through Madrona, we will enter into a new investment advisory agreement.

We also provide general non-securities advice on topics that may include tax and budgetary planning, estate planning and business planning.

Typically, the financial plan is presented to the client within three months of the contract date, provided that all information needed to prepare the financial plan has been promptly provided.

Financial Planning recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. All recommendations are of a generic nature.

### **CONSULTING SERVICES**

Clients can also receive investment advice on a more focused basis, in tandem with other services. This may include advice on only an isolated area(s) of concern such as estate planning, retirement planning, or any other specific topic. We also provide specific consultation and administrative services regarding investment and financial concerns of the client.

Consulting recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. All recommendations are of a generic nature.

### **MADRONA “BUNDLE”**

For investors with more than \$500,000 in investable assets, we offer the following additional services. We refer to this as our “bundle” of services, for clients who select Madrona as the primary investment adviser for their investable assets, or who purchase an insurance product (e.g., an annuity or life insurance policy) through our affiliate. The following services are made available in the bundle of services for no additional charge, and include some services that may be provided to us by our CPA affiliate, Bauer Evans. Clients with less than \$500,000 in investable assets may request these services pursuant to a separate service agreement and the payment of additional fees.

- Reviewing and prioritizing client goals and objectives
- Developing a risk assessment and asset management strategy
- Reviewing client’s current investment portfolio
- Identifying tax planning strategies to optimize financial position
- Developing an action plan to implement the agreed-upon recommendations
- Assisting client with the implementation of the recommendations
- Making requested adjustments to the original financial projection
- Consulting related to:
  - making financial decisions
  - assessing tax consequences of future transactions
  - comparing and explaining alternative investments or financial products
  - reviewing estate planning documents which may include checking for proper beneficiary designations and/or a basic assessment of existing estate documents
  - assessing life insurance needs
- Referral to other professionals, as required, to assist with implementation of the action plan

The services above will be performed based on the information the client provides. We will not verify the accuracy or completeness of the information provided to us or otherwise gather evidence for the purpose of performing the services.

We do not prepare tax returns, business financial statements, or business valuations. We may refer you to a related party, Bauer Evans, Inc. P.S. to have these services performed as part of a separate engagement. Fees associated with those services would be communicated by Bauer Evans.

We do not draft legal documents or provide legal advice. We may refer clients to an attorney for these services or to review questions that we believe extend beyond our expertise. Clients should consult an attorney for all legal advice.

We do not analyze or provide recommendations related to personal insurance, such as home



and auto insurance. For questions related to this, we recommend clients consult with their personal insurance agent.

## **SUB-ADVISORY SERVICES TO OTHER INVESTMENT ADVISERS**

We provide investment management services on a sub-advisory basis for one unaffiliated investment adviser (“UIA”). We offer this as an accommodation to the UIA, whose owner previously worked for us as an advisory representative, and do not offer this as a service to other investment advisers. We provide our sub-advisory services using the same general investment philosophy with which we approach investing on behalf of our direct clients (see the investment management services described in this Item 4, above, as well as Item 8, Methods of Analysis, Investment Strategies and Risk of Loss). When acting as a sub-adviser, however, we do not interact directly with the end client and we rely on the UIA to notify us of the client’s investment objectives, risk tolerance, cash flow requirements, and other circumstances relevant to our allocation.

In accordance with the terms of the UIA’s client agreement, the UIA grants us discretionary authority to furnish continuous and regular supervision of the investments held in UIA client accounts allocated to us, and to determine what investments will be purchased, sold or exchanged and what portion of such assets will be held un-invested. We exercise our discretionary authority in light of the suitability information provided to us by the UIA. The UIA retains discretionary authority to replace us as sub-adviser. The UIA is also responsible for delivering our Brochure to the UIA’s clients.

Under a service agreement with the UIA, we process fee billing for both MFS and the UIA. Our fee agreement, however, is with the UIA, not the end client. After deducting fees due to the UIA from client accounts, we retain our own sub-advisory fees and pay the balance to the UIA. If amounts charged are not sufficient to cover our fees, we will seek to obtain remaining amounts due from the UIA, not from the underlying client accounts. Our sub-advisory fees are negotiated with the UIA and are currently 50 basis points.

In addition to the isolated sub-advisory services described above, we maintain various agreements with other unaffiliated investment advisers to provide sub-advisory services related to DST and other real-estate-focused investments. These services are provided directly to the adviser, not to the clients of that adviser. On occasion, and at the request of the adviser, we will consult directly with adviser’s client on technical DST questions. The adviser will remain responsible for our fees and for overseeing the application of our recommendations to the adviser’s client’s personal circumstances. Our services include any of the following, with the actual services identified in the agreement between Madrona and the other adviser:

- Providing education on real estate topics
- Providing recommendations for initial and rollover DST allocations
- Marketing consulting
- Providing consulting services related to DST sales
- Analysis of “sell versus hold” decisions for current DST holdings being sold to REITs
- Consulting regarding public and private REITs

- Analysis of real estate cash flow from rental properties
- Administrative assistance, including fee billing and disbursal on behalf of the other adviser, and preparation of DST paperwork for end-client signatures
- Providing income tax advice, through our affiliate Bauer Evans, relating to real estate sales and step-up in basis
- Providing consulting services related to reporting of DST transactions on income tax returns, again through our affiliate Bauer Evans. This service expressly excludes tax preparation services

Our fees are negotiated with the adviser but are typically 50% of the advisory fees that adviser is earning on DSTs or similar real investments. In all cases the fee is due to Madrona from the third-party adviser, not from that adviser's end-client. Where Madrona is contracted to provide administrative assistance with fee billing, after deducting fees due to the other adviser(s) from client accounts, we retain our own sub-advisory fees and pay the balance. If amounts charged are not sufficient to cover our fees, we will seek to obtain remaining amounts due from the other advisers, not from the underlying client accounts. Where Bauer Evans is providing accounting or tax services, Bauer Evans will be paid an additional fee, in addition to the advisory fees paid to Madrona.

We have an agreement in place with an unaffiliated adviser to refer other advisers to us that might be interested in DST sub-advisory services. See Item 14 for additional information on this referral relationship.

### **AMOUNT OF MANAGED ASSETS**

As of 12/31/2020, we were actively managing approximately \$254.7 million of clients' assets on a discretionary basis.

## **Item 5 Fees and Compensation**

Asset-based fees are charged quarterly, in arrears, based on the value of the account assets as of the last business day of the quarter. Madrona relies on the valuations provided by the qualified custodian holding the accounts assets—Madrona does not independently value the securities held in the accounts we advise.

In cases where the account holds unregistered securities (private placements), for which a market value is not available, we value the holdings at original cost for billing purposes. Original cost may be more or less than the actual market value of the security, and may be more or less than the proceeds investors will receive upon liquidation or termination of the security.

Most of our clients' assets are invested in accordance with our models. Where we recommend a private placement, that investment will not be included in the model but its value will be included with other assets and assessed the same annual fee, unless the product was subject to a brokerage commission and recommended by one of our dually-registered representatives. See below for the range of our asset under management fees, as well as disclosure about receipt of commissions by dually-registered representatives.

Also see Item 8 Methods of Analysis, Investment Strategies and Risk of Loss for further information on private placements, including their costs and the impact on fees of Madrona's recommending private placements.

### **INVESTMENT SUPERVISORY SERVICES MODEL PORTFOLIO AND DST MANAGEMENT FEES**

A minimum of \$500,000 of investable assets is generally required for this service, though the minimum is negotiable. Madrona may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee. In our discretion, we may accept clients with investable assets of between \$250,000 and \$500,000, but those clients will be offered a separate service and will generally not have access to our bundled services without additional fees.

Our annual fees for Model Portfolio Management Services and managing client investments in "standard" assets, such as stock market investments (equities and fixed income) and non-traded REITs, are based upon a percentage of assets under management and are generally as follows:

Standard Asset Fee Schedule

<b>Assets Under Management</b>	<b>Annual Fee</b>
0 to \$1,000,000	1.25%
\$1,000,000 to \$5,000,000	1.05%
Assets in excess of \$5,000,000	0.85%

DSTs are subject to a lower fee schedule. The products are available through many brokers for an up-front commission, rather than an ongoing asset management fee, though clients may not receive from brokers all the services provided through Madrona. Note that Madrona has some advisory representatives who are also representatives of an unaffiliated broker-dealer (Purshe Kaplan Sterling Investments, Inc., member FINRA/SIPC, and referred to as "PKS" in this brochure), and may offer clients a DST for an up-front commission rather than an ongoing asset-based fee. If this occurs, you will be notified that the recommendation was made in the representative's capacity as a broker and that you will pay a commission through PKS. We are happy to assess for you whether a commissionable product or an asset-based fee is better for you overall. Because Madrona does not share in any commissions, however, we have a conflict of interest in making that assessment because we will earn more as a firm if you select the asset-based fee option. Similarly, individual representatives have a conflict because they have a financial incentive to recommend the structure that allows them to earn the highest compensation. Not all of our advisory representatives are licensed to offer both options of an ongoing asset-based fee (through Madrona) or a product with an upfront commission (through PKS). Please refer to the individual's ADV Part 2B (brochure supplement) for additional information.

## DST Fee Schedule

DSTs Under Management	Annual Fee
\$100,000 to \$1,000,000	1.00%
\$1,000,000 to \$5,000,000	.80%
Amount in excess of \$5,000,000	.60%

Fees charged on DSTs are calculated and paid to us by the DST sponsor based on the original amount invested. They are deducted from the cash-flow payments due investors rather than from the principal amount of the investment. The fee to be paid is based on the original value of the investment. Clients sign a disclosure acknowledging the value and the amount to be charged. The amount of the fee will not vary over the life of the investment, though the underlying value of the DST may fluctuate and at liquidation may be worth more or less than the amount originally invested.

If a client holds both standard assets and a DST:

- the standard assets will be subject to the Standard Asset Fee Schedule based on the combined value of the standard assets and the DST.
- the DST will be subject to the DST Fee Schedule based on the value of the DST.

If a client holding both standard assets and a DST subsequently invests in more standard assets:

- the standard assets will be subject to the Standard Asset Fee Schedule based on the combined value of the standard assets and the DST.
- the fee charged on the DST will remain the same.

If a client holding both standard assets and a DST subsequently invests in one or more additional DSTs:

- the standard assets will be subject to the Standard Asset Fee Schedule based on the combined value of the standard assets and all the DSTs.
- the fee charged on the original DST(s) will remain the same.
- the new DST investment(s) will be subject to the DST Fee Schedule based on the total value of all the DST investments.

**Limited Negotiability of Advisory Fees:** Although Madrona has established the aforementioned fee schedule(s), we retain the discretion to negotiate alternative fees on a client-by-client basis. Client facts, circumstances and needs are considered in determining the fee schedule. These include the complexity of the client, assets to be placed under management, anticipated future additional assets; related accounts; portfolio style, account composition, reports, among other factors. The specific annual fee schedule(s) is identified in the contract between the adviser and each client.

Discounts, not generally available to our advisory clients, may be offered to family members and

friends of associated persons of our firm.

### **PENSION AND PROFIT-SHARING PLAN CONSULTING FEES**

Our fees for Pension and Profit-Sharing Plan Consulting Services are based on a percentage of the plan's assets under advisement, according to the following schedule:

Our gross annual fees for Pension and Profit-Sharing Plan Consulting Services are based on a percentage of the plan's assets under advisement and generally range from 0.50% to 0.95%.

### **FINANCIAL PLANNING FEES**

Madrona's Financial Planning fee is determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client.

Our Financial Planning fees are calculated and charged on a fixed fee basis, generally \$500 depending on the specific arrangement reached with the client.

We may request a retainer upon completion of our initial fact-finding session with the client; however, advance payment will never exceed \$1,200 for work that will not be completed within six months. The balance, if any, is due upon completion of the plan.

As discussed in the Services section, above, for marketing purposes, Madrona regularly offers financial planning services free of charge for clients with at least \$500,000 in investable assets. For clients with less than \$500,000 in investable assets, our standard financial planning fees is \$1,200, though this is negotiable.

### **CONSULTING SERVICES FEES**

Any separate fees for Consulting Services, are generally provided only in connection with other services, such as Financial Planning or Investment Management, and will be detailed in a separate Agreement.

### **INSURANCE RECOMMENDATIONS & IMPLEMENTATION; INSURANCE COMMISSIONS**

Madrona Insurance Services, LLC ("Madrona Insurance") is a licensed insurance agency affiliated with Madrona. Management personnel and other related persons of Madrona are also licensed as insurance agents. In their roles as advisory representatives of Madrona, they make recommendations to clients concerning insurance needs and coverage, including life insurance, premium financed life insurance, disability, long-term care, liability, and property & casualty. Representatives may also recommend fixed indexed annuities or related products to meet client cash flow or other needs. Madrona's Representatives make these recommendations only in

response to client needs and consistent with our fiduciary duty. Clients may choose whether to implement the recommendations and which insurance agents to use. For some products, such as life insurance, long-term care, premium financed life insurance, or fixed indexed annuities, the Madrona representative is able to sell the product recommended in his or her dual capacity as both an advisory representative and an insurance agent.

When the Madrona representative recommends an insurance product and then implements the recommendation, both Madrona Insurance and the representative receive additional compensation in the form of insurance commissions earned. While commissions earned are customary for the industry, they can be substantial, especially in the case of premium financed life insurance. This presents a conflict of interest in that both the representative and the firm have a financial incentive to recommend the product to also earn a commission. Clients are not under any obligation to use their Madrona representative as the insurance agent in implementing advisory recommendations.

Clients should understand that insurance may be used in a number of ways and to fulfill various needs. The Madrona professional recommending specific insurance products to you is available to answer any questions you have. Some insurance products, such as premium financed life insurance, meet specialized needs of high net worth clients and have a number of complex factors to assess. We encourage you to involve other professional advisers, including estate planning attorneys and tax professionals, in your assessment of whether a given recommendation will likely perform as intended over time and whether it will meet your unique requirements. At your request, your Madrona adviser will work collaboratively with these other professionals to ensure you both understand the recommendations and that they are appropriate for your situation.

The implementation of any or all insurance recommendations is solely at the discretion of the client.

## **REGISTERED REPRESENTATIVES OF A BROKER-DEALER; COMMISSION PAYMENTS**

Some of Madrona's advisory representatives are also registered as representatives of an unaffiliated broker-dealer, Purshe Kaplan Investments, Inc. ("PKS"), member FINRA/SIPC. As such, they are able to accept compensation for the sale of securities such as DSTs or other investment products, and including distribution or service ("trail") fees from the sale of mutual funds or variable annuities. They receive trail revenue through PKS on products previously sold to clients while with a prior broker-dealer ("legacy assets"), and can receive trails on new assets, depending on what type of account (brokerage or advisory) they recommend. Being registered as both a representative of a broker-dealer and representative of an investment adviser creates a conflict in which the dually-licensed representative can make recommendations based on the compensation the representative will receive rather than on the client's needs. Upon meeting with a new prospective client, the dually-registered representative makes an assessment about whether an advisory relationship or a brokerage relationship is best for the client. The assessment is partly based on cost – all other things being equal, is the client's best interest served through advisory or brokerage costs? Cost cannot be the only consideration, however, and the assessment also includes the client's needs and objectives. For example, a client with financial planning requirements or who requires ongoing discretionary management of the portfolio would need to be serviced through an advisory account.

In no event are dually-registered representatives permitted to charge commissions through PKS on assets managed by Madrona as investment adviser. Similarly, they are not permitted to charge advisory fees through Madrona on assets for which they are receiving trail payments through PKS.

Madrona does not share in commissions earned by PKS or the representative. Madrona does, however, provide prospective clients to its representatives. Because Madrona cannot earn commissions, dually-registered representatives have an additional conflict of interest in determining whether a brokerage account or advisory account is best for the client. The representative may be concerned that referrals from Madrona could cease or be less frequent if the representative recommends brokerage services instead of advisory services. To mitigate this conflict, we disclose it and inform clients they are not required to accept the representative's recommendation. Further, we provide ongoing training to representatives concerning their fiduciary duty to clients.

Please see the individual's ADV Part 2B, as well as the Relationship Summary (Form CRS or ADV Part 3) provided by Madrona and by PKS, for additional details about the conflicts of interest inherent in dual registration, and about the differences between brokerage and advisory services.

## **GENERAL INFORMATION**

***Termination of the Advisory Relationship:*** A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days' written notice. As disclosed above, certain planning fees are paid in advance of services provided. Upon termination, any prepaid fees will be billed based on time spent and the difference refunded. Additional details, if applicable, will be described in the client agreement.

***Mutual Fund Fees:*** All fees paid to Madrona for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund and/or ETF directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, clients should review both our fees and the fees charged by the funds to fully understand the total amount of fees to be paid and to thereby evaluate the advisory services being provided.

***Additional Fees and Expenses:*** In addition to our advisory fees, clients are also responsible for the fees and expenses charged by custodians, including commissions and service charges. Please refer to the "Brokerage Practices" section (Item 12) of this Brochure for additional information.

***ERISA Accounts:*** Madrona is deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts (IRAs) pursuant to the Employee Retirement Income and Securities Act ("ERISA"), and regulations under the Internal Revenue Code of 1986

(the "Code"), respectively. As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation.

**Advisory Fees in General:** Clients should note that similar advisory services may be available from other registered (or unregistered) investment advisers for similar, higher, or lower fees.

**Limited Prepayment of Fees:** Under no circumstances do we require or solicit payment of fees in excess of \$1,200 six or more months in advance of services rendered.

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

Madrona does not charge performance-based fees.

## **Item 7 Types of Clients**

Madrona provides advisory services to the following types of clients:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Pension and profit-sharing plans (other than plan participants)
- Corporations or other businesses not listed above

Clients must generally have minimum investable assets of \$500,000, including securities, insurance products, and DSTs or other non-standard assets we advise on. The minimum is negotiable and if we accept clients with investable assets between \$250,000 and \$500,000, those clients will generally not have access to our bundled services without additional fees.

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

### **METHODS OF ANALYSIS**

We use the following methods of analysis in formulating our investment advice and/or managing client assets:

**Charting:** In this type of technical analysis, we review charts of market and security activity in an attempt to identify when the market is moving up or down and to predict how long the trend may last and when that trend might reverse.

**Fundamental Analysis:** We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. This presents a



potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

**Quantitative Analysis:** We use mathematical models in an attempt to obtain more accurate measurements of a company's quantifiable data, such as the value of a share price or earnings per share, and predict changes to that data.

A risk in using quantitative analysis is that the models used may be based on assumptions that prove to be incorrect.

**Asset Allocation:** Rather than focusing primarily on securities selection, we attempt to identify an appropriate ratio of securities, fixed income, and cash suitable to the client's investment goals and risk tolerance.

A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals.

**Mutual Fund and/or ETF Analysis:** We look at the methodology used by the manager of the mutual fund or ETF in an attempt to determine if that manager has demonstrated a superior value-add proposition. We also look at the underlying assets in a mutual fund or ETF in an attempt to determine if there is significant overlap in the underlying investments held in another fund(s) in the client's portfolio. We also monitor the funds or ETFs in an attempt to determine if they are continuing to follow their stated investment strategy.

A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the holding(s) less suitable for the client's portfolio.

**Risks for all forms of analysis:** Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

## **INVESTMENT STRATEGIES**

We use the following strategy(ies) in managing client accounts, provided that such strategy(ies) are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

**Long-term purchases:** We purchase securities with the idea of holding them in the client's account for a year or longer. Typically, we employ this strategy when:

- We believe the securities to be currently undervalued; and/or
- We want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantage of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

**Margin transactions:** We do not typically recommend that client's trade on margin and we do not use our discretionary authority to establish margin accounts. At your request, we may purchase stocks for your portfolio with money borrowed from your brokerage account (margin). This allows you to purchase more stock than you would be able to with your available cash, and allows us to purchase stock without selling other holdings, but involves significant additional risks. These risks are disclosed to you by the custodian at the time you establish a margin account. Some of the major risks include: you can lose more than you deposit; the custodian can force the sale of securities in your account, often at a loss; the custodian can sell your securities without notifying you and without consulting you about which securities to sell; and the custodian can increase the house margin requirements at any time.

**Private Placements:** Where Madrona believes it to be suitable for the client, the firm may occasionally recommend private-placed securities, typically real-estate related. Private placements (unregistered securities) are exempt from registration under federal securities laws, may have limited or no transparency as to the underlying investments, and are generally available only to "accredited" or "qualified investors," who are assumed to be sophisticated purchasers who have little or no need for liquidity from such investments, and are able to withstand the loss of some or all of their investment. Limitations on withdrawal rights and non-tradability of interests create higher liquidity risk, and such securities should be viewed as long-term investments. Clients using these products and strategies must be able to tolerate this illiquidity by reserving sufficient resources to meet all obligations. Expenses related to private placements may be a higher percentage of net assets than traditional investment strategies. The duration of private fund investments with longer-term securities are more sensitive to interest rates and include the possibility of more volatility than other investments. This is not an exclusive list of potential or actual risks in any particular private placement and additional important information is found in the specific security's offering materials. Clients must receive and read the offering materials before investing, and execute any required subscriptions documents. The investment sponsor determines whether to accept a specific investment. Madrona is not able to exercise its discretionary authority with respect to private placements.

**Real Estate DSTs:** When Madrona believes it to be suitable for the client, the firm may occasionally recommend privately-placed real estate DSTs (Delaware Statutory Trust). The risks described in Private Placements, above, also apply to real estate DSTs.

The DST structure permits tax deferral on appreciated property by allowing the investment of proceeds from appreciated real estate. Real estate DSTs are structured to take advantage of the

tax deferral opportunity afforded by Section 1031 of the tax code ("1031 Exchange"). A 1031 Exchange must be completed in accordance with specific requirements in order to obtain the tax benefit. The real estate DSTs we recommend are designed to help investors meet the 1031 Exchange requirements, but there are circumstances unique to each investor that cannot be addressed by the investment structure. Further, each real estate DST has features that may create other tax consequences, such as state tax obligations, or generation of passive income. For this reason, we recommend that you consult your own tax professional before investing.

Real estate DSTs are not the only way investors can benefit from a 1031 exchange. The investments Madrona recommends bring certain advantages, such as diversification, professional management, and access to significant commercial properties. The structure also limits the investor's control and influence significantly, and the investment structures build in high operating and sales expenses for the investment Sponsor, manager, and affiliated entities. These expenses will lower investors' overall returns.

In recommending a real estate DST, Madrona has a conflict of interest because the firm will charge its agreed investment advisory fee on the amount invested, for as long as clients hold the investment. The conflict arises because Madrona charges advisory fees on securities, not on real estate. By recommending clients move assets from real estate to a security that invests in real estate, Madrona increases its overall compensation. The firm addresses this conflict by recommending real estate DSTs only where it believes the benefits are significant enough to overcome the additional expenses. We encourage investors to carefully consider the potential investment benefit, net of fees, as well as the potential tax benefits, in deciding whether to invest in a real estate DST. Also see Item 5, Fees and Compensation.

**Real Estate Risk:** Risks associated with the real estate industry in general include: local, national and international economic conditions; the supply and demand for properties; the financial conditions for tenants, buyers and sellers of properties; changes in interest rates; changes in environmental laws or regulations, planning laws and other governmental roles and fiscal and monetary policies; changes in real property tax rates; negative developments in the economy that depress travel and retail activity; uninsured casualties; force majeure acts, terrorist events, under-insured or uninsurable losses; and other factors that are beyond the reasonable control of the Manager. Other risks include, but are not limited to, tenant vacancies; declining market values; potential loss of entire investment principal; that potential cash flow, potential returns, and potential appreciation are not guaranteed in any way; adverse tax consequences; and that real estate is typically an illiquid investment.

In addition, real estate assets are subject to long-term cyclical trends that give rise to significant volatility in values. Investment is disproportionately exposed to the foregoing risks because of its concentration in real estate and real estate-related investments.

Real estate investing may be subject to a higher degree of market risk because of concentration in a specific industry, sector, or geographic sector. Real estate investments may be subject to risks including, but not limited to, declines in the value of real estate, risks related to general and economic conditions, changes in the value of the underlying property owned by the trust and defaults by borrowers.

In general, investing in securities with concentrated exposures to (i) particular asset class(es) and/or (ii) a particular sector and/or (iii) one or a select few markets involves greater risk than investing in investments that have greater diversification.

**Risk of Loss:** Securities investments are not guaranteed and you may lose money on your

investments. We ask that you work with us to help us understand your tolerance for risk.

## **Item 9      Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

Our firm and our management personnel have no reportable disciplinary events to disclose.

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

### ***Certified Public Accounting Firm:***

Brian Evans owns the accounting firm Bauer Evans, Inc. P.S. ("Bauer Evans"), where he is a licensed and practicing Certified Public Accountant providing accounting services for separate and typical compensation. Other advisory representatives of Madrona are also licensed CPAs with Bauer Evans. These individuals may spend the majority of their time on their accounting practice.

Bauer Evans typically recommends Madrona to accounting clients in need of advisory services. Similarly, Madrona Financial Services typically recommends Bauer Evans to advisory clients in need of accounting services. Accounting services provided by Bauer Evans are separate and distinct from our advisory services, and are provided for separate and typical compensation. There are no referral fee arrangements between our firms for these recommendations. No Madrona client is obligated to use Bauer Evans for any accounting services and conversely, no accounting client is obligated to use the advisory services provided by us.

Bauer Evans' accounting services do not include the authority to sign checks or otherwise disburse funds on any of our advisory client's behalf.

### ***Affiliated Insurance Agency and Insurance Brokerage***

Madrona Insurance Services, LLC, ("Madrona Insurance") is a licensed insurance agency under common control with Madrona. Advisers of our firm, in their individual capacities, are licensed as insurance agents. As such, these individuals are able to receive separate, yet customary commission compensation resulting from implementing product transactions on behalf of advisory clients. Clients, however, are not under any obligation to engage these individuals when considering implementation of advisory recommendations. The implementation of any or all recommendations is solely at the discretion of the client.

Clients should be aware that the receipt of additional compensation by Madrona Insurance and by Madrona's management persons or employees creates a conflict of interest that may impair the objectivity of our firm and these individuals when making advisory recommendations. Madrona endeavors at all times to put the interest of its clients first as part of our fiduciary duty as a registered investment adviser; we take the following steps to address this conflict:

- We disclose to clients the existence of all material conflicts of interest, including the potential for our firm and our employees to earn compensation from advisory clients in

addition to our firm's advisory fees;

- We disclose to clients that they are not obligated to purchase recommended investment products from our employees or affiliated companies;
- We collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
- We require that our employees seek prior approval of any outside employment activity so that we may ensure that any conflicts of interests in such activities are properly addressed;
- We educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

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

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

Madrona and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code also provides for oversight, enforcement and recordkeeping provisions.

Madrona's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by email sent to [info@madronafinancial.com](mailto:info@madronafinancial.com), or by calling us at 425-212-3777.

Both Madrona and individuals associated with the firm are prohibited from engaging in principal transactions.

Madrona and our affiliates are not restricted from forming additional investment funds, entering into other investment advisory relationships or engaging in other business activities, even though such activities may be in competition with Madrona, and/or may involve substantial time and resources of our firm and our affiliates. Potentially, such activities could be viewed as creating a

conflict of interest in that the time and effort of our management personnel and employees will not be devoted exclusively to the business of Madrona but could be allocated between the business of Madrona and our other business activities and those of our affiliates. Please refer to "Advisory Business" (Item 4) and "Fees and Compensation" (Item 5) for a detailed explanation of these relationship and important conflict of interest disclosure.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and/or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client.

It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account, thereby preventing such employee(s) from benefiting from transactions placed on behalf of advisory accounts.

We may aggregate our employee trades with client transactions where possible and when compliant with our duty to seek best execution for our clients. In these instances, participating clients will receive an average share price and transaction costs will be shared equally and on a pro-rata basis. In the instances where there is a partial fill of a particular batched order, we will allocate all purchases pro-rata, with each account paying the average price. Our employee accounts will be included in the pro-rata allocation.

As these situations represent actual or potential conflicts of interest to our clients, we have established the following policies and procedures for implementing our firm's Code of Ethics, to ensure our firm complies with its regulatory obligations and provides our clients and potential clients with full and fair disclosure of such conflicts of interest:

1. No principal or employee of our firm may put his or her own interest above the interest of an advisory client.
2. No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is a result of information received as a result of his or her employment unless the information is also available to the investing public.
3. It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account. This prevents such employees from benefiting from transactions placed on behalf of advisory accounts.
4. Our firm requires prior approval for any IPO or private placement investments by related persons of the firm.

5. We maintain a list of all reportable securities holdings for our firm and anyone associated with this advisory practice that has access to advisory recommendations (“access person”). These holdings are reviewed on a regular basis by our firm’s Chief Compliance Officer or his/her designee.
6. We have established procedures for the maintenance of all required books and records.
7. All clients are fully informed that related persons receive separate commission compensation when effecting transactions during the implementation process.
8. Clients can decline to implement any advice rendered, except in situations where our firm is granted discretionary authority.
9. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
10. We require delivery and acknowledgment of the Code of Ethics by each supervised person of our firm.
11. We have established policies requiring the reporting of Code of Ethics violations to our senior management.
12. Any individual who violates any of the above restrictions may be subject to termination.

## **Item 12 Brokerage Practices**

### **Factors Considered in Selecting or Recommending Broker-Dealers or Custodians**

Madrona currently recommends three custodians for traditional, liquid assets: Fidelity Brokerage Services, LLC (“Fidelity”); Charles Schwab & Co., Inc. (“Schwab”); and TD Ameritrade Institutional, a division of TD Ameritrade, Inc. and TD Ameritrade Clearing, Inc. (“TDA”).

Clients must select a custodian and enter into a separate agreement with that firm. We do not have discretionary authority to choose custodians.

We do not have any traditional “soft dollar” arrangements but do receive various benefits from our relationships with the custodians we recommend. These are described more fully below.

### **Factors Considered in Recommending Brokers/Custodians**

Our duty to seek best execution is the primary factor we consider in recommending custodians.

A client may pay a commission that is higher or lower than another qualified broker-dealer might charge to effect the same transaction where we determine in good faith that the commission is reasonable in relation to the value of the brokerage and research services received. 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, while we will seek competitive rates, to the benefit of all clients, we may not necessarily obtain the lowest possible commission rates for specific client account transactions (see "Directed Brokerage," below). Although the investment research products and services that may be obtained by us will generally be used to service all of our clients, a brokerage commission paid by a specific client may be used to pay for research that is not used in managing that specific client's account.

We have independently evaluated the services provided by Schwab, Fidelity, and TDA and determined that each of the custodians satisfies our duty of best execution. We have also determined that the custodial market provides a relatively standard suite of services that offer value to both clients and to Madrona. The following items are of value to both Madrona and our clients when compared to other brokers or custodians:

- Mix of brokerage execution services
- Reasonableness of compensation (generally low commissions and other charges)
- Research availability
- Variety of securities that can be purchased or sold (including the number of mutual funds) on a load waived or no-load basis, with many also on a no-transaction fee basis
- The fact that the firm does not charge for custodial services

#### **Charles Schwab & Co., Inc.**

We participate in a program called "Schwab Advisor Services" which is sponsored by Schwab and made available to Madrona and other investment advisers. By participating in this program, and through custody of client assets with Schwab, we receive access to tools and services, such as:

- Software and other technology that provides access to client account data;
- Facilitation of trade execution and the allocation of blocked orders for multiple accounts;
- Research, pricing and other market data;
- Payment of our fees directly from your account, if authorized in your advisory agreement;
- Assistance with back-office functions, recordkeeping and client reporting;
- Services related to the management and development of our business, such as compliance, legal, and business consulting;
- Educational events or occasional business entertainment of our employees.

The software, technology, and account access, as well as the practice management resources Schwab provides, create an operational and compliance benefit for Madrona that does not necessarily translate directly into a client benefit. As a result of receiving such services for no additional cost, we may have an incentive to continue to use or expand the use of Schwab's services. We examined this potential conflict of interest when we chose to enter into the



relationship with Schwab and have determined that the relationship is in the best interests of our clients and satisfies our client obligations, including our duty to seek best execution.

### **Fidelity Brokerage Services, LLC**

In addition to the services that benefit clients directly, Fidelity also offers other services intended to help our firm manage and further develop its advisory practice. Such services include, but are not limited to:

- Access to client account data, such as trade confirmations and account statements;
- Facilitation of trade execution and allocation of aggregated orders for multiple client accounts;
- Research, pricing, and other market data;
- Payment of our fees directly from your account, if authorized in your advisory agreement;
- Assist with back-office functions, recordkeeping and client reporting;
- Performance reporting;
- Financial planning resources;
- Contact management systems;
- Publications;
- Access to educational conferences, roundtables and webinars;
- Practice management resources;
- Access to consultants and other third-party service providers who provide a wide array of business-related services and technology with whom we may contract directly.

The software, technology, and account access, as well as the practice management resources Fidelity provides create an operational and compliance benefit for Madrona that does not necessarily translate directly into a client benefit. As a result of receiving such services for no additional cost, we may have an incentive to continue to use or expand the use of Fidelity's services. We examined this potential conflict of interest when we chose to enter into the relationship with Fidelity and have determined that the relationship is in the best interests of our clients and satisfies our client obligations, including our duty to seek best execution.

### **TD Ameritrade, Inc.**

Madrona participates in TDA's Institutional customer program and we may recommend TDA to our clients for custody and brokerage services. There is no direct link between our firm's 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 TDA retail investors.

These benefits include the following products and services (provided without cost or at a discount):

- Duplicate client confirmations;
- Research related products and tools;
- Consulting services;
- Access to a trading desk serving adviser participants;

- 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;
- Discounts on compliance, marketing, research, technology, and practice management products or services provided to Madrona by third party vendors.

The software, technology, and account access, as well as the practice management resources TDA provides create an operational and compliance benefit for Madrona that does not necessarily translate directly into a client benefit. As a result of receiving such services for no additional cost, we may have an incentive to continue to use or expand the use of TDA's services. We examined this potential conflict of interest when we chose to enter into the relationship with TDA and have determined that the relationship is in the best interests of our clients and satisfies our client obligations, including our duty to seek best execution.

### **Commissions and other Custodian Compensation**

The custodians we recommend do not charge for custodial services but instead receive compensation through account holder commissions and other transaction-related fees for securities trades executed by them or settled into your accounts.

In the programs provided to advisers like Madrona, the custodians establish flat commission charges for various types of securities transactions; we generally do not negotiate the commissions you pay on a transaction-by-transaction basis. As a result, the accounts we establish on your behalf with Schwab will be assessed these transaction charges. Commissions you pay to the custodian, if any, are disclosed on the confirmation of each security transaction we place on your behalf. These confirmations are sent directly to you by the custodian and we receive a copy of them.

In some cases the mutual funds or ETFs we purchase or sell for your accounts are made available by the custodian on a no-load or load-waived basis. In addition, certain mutual funds and ETFs are made available for no transaction fee; as a result the confirmation may show "no commission" for a particular transaction. Typically the custodian or a custodian affiliate (but not Madrona) earns additional remuneration from such services as recordkeeping, administration, and platform fees, for the funds and ETFs on their no-transaction fee lists. This additional revenue to the custodian or affiliate that will tend to increase the internal expenses of the fund or ETF. Madrona selects investments based on our assessment of a number of factors, including liquidity, asset exposure, reasonable fees, effective management, and low execution cost.

### **Directed Brokerage**

Because we typically execute your investment transactions through the custodian holding your assets, we are effectively requiring that you "direct" your brokerage to your custodian, absent other specific instructions as discussed below. Because we are not usually choosing brokers on a trade-by-trade basis, we may not be able to achieve the most favorable executions for clients and this may ultimately cost clients more money. Not all investment advisers require directed brokerage.

We do not use, recommend, or direct activity to brokers in exchange for client referrals. Although not a normal business practice for Madrona, we may permit clients to direct us to use brokers other than the custodian (client-directed brokerage). If we agree to accommodate your request to do this, we will likely have little or no ability to negotiate commissions or influence execution price, and you will also not benefit from any trade aggregation we may implement for other clients. This may result in greater costs to you.

## **Aggregated or Block Transactions**

Madrona will use block trades where possible and when advantageous to clients. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts, so long as transaction costs are shared equally and on a pro-rated basis between all accounts included in any such block.

Block trading may allow us to execute equity trades in a timelier, more equitable manner, at an average share price. Madrona will typically aggregate trades among clients whose accounts can be traded at a given broker, and generally will rotate or vary the order of brokers through which it places trades for clients on any particular day.

We choose to aggregate trades where we believe that doing so provides an overall execution quality advantage, and doing so is consistent with the client's advisory agreement and our own order allocation policies. In general, we do not favor any account over another when aggregating orders.

When we choose to place a block transaction, we enter the order to purchase or sell a particular number of shares or face amount of a security and all participating clients and their pro-rated shares of the block are known at the time of the transaction. We generally trade in liquid securities and partial allocations are not a concern under normal market conditions. However, should we not receive the full amount of the requested, or if multiple executions are required, the following apply:

- If the full amount we requested is not obtained (and we determine to stop trading), we will pro-rate the purchased shares equally across all participating accounts. However, if employee transactions are included in the block and only a partial fill is completed, employee transactions are excluded until all client trades are completed.
- If multiple fills occur to complete the full block, then all purchases are averaged to price and each participating client receives their full allocation at that average price.

Additional information about our aggregation policies is available upon request.

## **DSTs and Private Placements**

Where we recommend a DST or other private placement, our core custodians may not permit you to hold the assets with them. In most cases, the issuer will retain a record of your holdings in book-entry form. If needed, we will recommend another third-party custodian able to hold private placements. The fees associated with the arrangement will be disclosed to you at the time you select the custodian.

## **Item 13      Review of Accounts**

### **INVESTMENT SUPERVISORY SERVICES ("ISS") MODEL PORTFOLIO MANAGEMENT SERVICE**

**REVIEWS:** While the underlying securities within Model Portfolio Management Services accounts are continually monitored, these accounts are reviewed at least quarterly. Accounts are reviewed in the context of the investment objectives and guidelines of each model portfolio as well as any investment restrictions provided by the client. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

These accounts are reviewed by: Brian K. Evans and/or a designated individual

**REPORTS:** In addition to the monthly statements and confirmations of transactions that clients receive from their broker-dealer, we provide quarterly reports summarizing account performance, balances and holdings. These reports will also remind the client to notify us if there have been changes in the client's financial situation or investment objectives and whether the client wishes to impose investment restrictions or modify existing restrictions.

### **PENSION AND PROFIT-SHARING CONSULTING SERVICES**

**REVIEWS:** Madrona will review the client's Investment Policy Statement (IPS) whenever the client advises us of a change in circumstances regarding the needs of the plan. Madrona will also review the investment options of the plan according to the agreed upon time intervals established in the IPS.

These accounts are reviewed by: Brian K. Evans and/or a designated individual

**REPORTS:** Clients will receive reports periodically from the third-party administrator.

### **FINANCIAL PLANNING SERVICES**

**REVIEWS:** While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Financial Planning clients unless otherwise contracted for.

**REPORTS:** Financial Planning clients will receive a completed financial plan. Additional reports will not typically be provided unless otherwise contracted for.

### **CONSULTING SERVICES**

**REVIEWS:** While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Consulting Services clients unless otherwise contracted for. Such reviews will be conducted by the client's account

representative.

**REPORTS:** Consulting Services clients will not typically receive reports due to the nature of the service.

## Item 14 Client Referrals and Other Compensation

### CLIENT REFERRALS

We may enter into solicitor arrangements with other entities, under which the solicitor refers prospective clients to us and receives a referral fee in the form of a share of the advisory fees Madrona charges. Under the terms of the solicitor agreement, the solicitor must provide the prospective client with a copy of this document (our *Firm Brochure*) and a separate disclosure statement that includes the following information:

- The solicitor's name and relationship with our firm;
- The fact that the solicitor is being paid a referral fee;
- The amount of the fee and any specific terms related to payment; and
- Whether the fee paid to us by the client will be increased above our normal fees in order to compensate the solicitor.

Our primary referral arrangement is with another investment adviser who refers investment advisers (not end clients) to enter into DST sub-advisory relationships with us (see Item 4, above, for more information about our sub-advisory services). Those unaffiliated investment advisers are responsible for any needed disclosures about the relationship to their own clients. Though the split could be negotiated, our standard sub-advisory fee is 50% of what the adviser charges its clients; we then share half of what we earn with the original referring firm. The end client's fees are not increased as a result of the referral, though they may be increased by the sub-advisory agreement. Madrona does not have control over what the other adviser charges its own clients.

As a matter of firm practice, the advisory fees paid to us by clients referred by solicitors are not increased as a result of any referral, unless disclosed to the client.

It is Madrona's policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

DST sponsors routinely pay for seminars concerning their products and which we are invited to participate in. DST sponsors also occasionally cover the cost of client appreciation events Madrona provides in the ordinary course of its business. We also sometimes sponsor conferences and other types of events, and DST sponsors occasionally cover these costs. These payments provide a marketing benefit to Madrona and we have an incentive to recommend the sponsors who host seminars and offset the costs of our own events. This creates a conflict of

interest which we mitigate by disclosing it and by selecting sponsors based on our assessment of the investment opportunity, not the marketing support that sponsor will provide.

## **Item 15 Custody**

We previously disclosed in the "Fees and Compensation" section (Item 5) of this Brochure that our firm directly debits advisory fees from client accounts.

As part of this billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period.

Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement.

In addition to the periodic statements that clients receive directly from their custodians, we also send account statements directly to our clients on a quarterly basis. We urge our clients to carefully compare the information provided on these statements to ensure that any account transactions, holdings and values are correct and current.

Except for DST investments (a record of which is maintained by the issuer/sponsor), all client funds and securities are maintained with a qualified custodian; we don't take physical possession of client assets. In addition to "technical" custody due to direct fee deduction, in some cases clients sign standing letters of authorization ("SLOAs") authorizing payment from their custodial accounts to client-designated third parties. Madrona initiates the payments in accordance with client wishes. The SEC has deemed Madrona's authority to facilitate these payments as "custody" and requires that we report we have custody over these account assets on our ADV 1A. To the extent the SLOAs comply with certain conditions, however, including that clients have the right to terminate the SLOA, and that the qualified custodian will confirm the status of the SLOA annually directly with the client, we are not subject to a surprise custody audit.

As noted above, all DST investments are held by the applicable DST sponsor(s). DST clients sign a letter of direction ("LOD") directing the DST sponsor to remit the advisory fee directly to Madrona.

## **Item 16 Investment Discretion**

Clients may hire us to provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client:

- determine the security to buy or sell; and/or
- determine the amount of the security to buy or sell

Clients give us discretionary authority when they sign a discretionary agreement with our firm,

and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions.

## **Item 17     Voting Client Securities**

As a matter of firm policy, we do not vote proxies on behalf of clients. Therefore, although our firm may provide investment advisory services relative to client investment assets, 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. Clients are responsible for instructing each custodian of the assets, to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets.

We may provide clients with consulting assistance regarding proxy issues if they contact us with questions at our principal place of business.

## **Item 18     Financial Information**

As an advisory firm that maintains discretionary authority for client accounts, we are also required to disclose any financial condition that is reasonably likely to impair our ability to meet our contractual obligations. Madrona has no such financial circumstances to report.

Under no circumstances do we require or solicit payment of fees in excess of \$1,200 per client six or more months in advance of services rendered. Therefore, we are not required to include a financial statement.

Madrona has not been the subject of a bankruptcy petition at any time.