



## Disclosure Brochure

March 30, 2021

*Item 1 – Cover Page*

*CRD # 119969*

This brochure provides information about the qualifications and business practices of Financial Counseling, Inc. ("FCI" or "Adviser") and its owner Stevan M. Vaughan and staff.

If you have any questions about the contents of this brochure, please contact us at (937) 748-8710 or [Steve.Vaughan@Fincounsel.com](mailto:Steve.Vaughan@Fincounsel.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.

Financial Counseling, Inc. is a Registered Investment Adviser. Registration as an Investment Adviser does not imply any level of skill or training. This disclosure document is designed to grant current clients as well as potential clients the opportunity to carefully read and establish an understanding of the various investment advisory services that are offered and the respective fees and expenses of those services. The information contained in this document is important to the conduct of both parties entering an advisory contract. While investment advisers have a fiduciary duty to put the needs of clients before their own, clients likewise have a duty to investigate and maintain a basic understanding of the services offered by the Adviser. We hope this document serves as a leading educational tool to aid clients and prospective clients in understanding how Financial Counseling, Inc. conducts investment advisory services.

Additional information about Financial Counseling, Inc. is also available via the SEC web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC web site also provides information about any persons affiliated with Financial Counseling, Inc. who are registered as investment adviser representatives of FCI.

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## *Item 2- Material Changes*

Since our last update as of November 16, 2020, there have been no material changes in the business services of Financial Counseling, Inc. In the future, this portion of the brochure will discuss specific material changes that are made to the brochure and provide clients with a summary of such changes to this and subsequent brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

Depending on the facts and circumstances, examples of material changes may include, but are not limited to:

- Change of address/location or contact information (e.g. phone number, email)
- New Owners of Investment Adviser entity
- Significant change in services offered
- New potential conflict of interest
- A new fee schedule
- Changes in disciplinary history
- Changes in the custodian or broker used
- Changes in licensing status with the SEC or state(s)

Our Firm's Chief Compliance Officer will continue ongoing reviews of its Disclosure Document and Brochure Supplement as required by SEC regulations. As stated above, in the event of significant changes in the future, Financial Counseling, Inc. will forward to its clients copies of this Material Changes Section outlining those changes specifically, in keeping with regulatory requirements.

Additional information about Financial Counseling, Inc. is also available via the SEC web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC web site also provides information about any persons affiliated with Financial Counseling, Inc. who are registered as investment adviser representatives of FCI.

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#### *Item 4 – Advisory Business*

Financial Counseling, Inc. was formed in July 1995 and is a corporation organized in the State of Ohio. Stevan M. Vaughan is the President and sole owner. Financial Counseling, Inc. provides “fee for service” financial planning and investment advice. Areas of advice include asset allocation, investment selection, retirement planning, college funding and employee benefits and qualified plan subaccount analysis. Engagements are limited in scope based on the client’s unique circumstances. As of December 31, 2020, FCI manages approximately \$101 million in assets. The managed assets are \$100.5 million on a discretionary basis, with \$530,000.00 managed on a non-discretionary basis.

The Adviser gathers financial data including the client’s goals, circumstances, financial condition and risk tolerance. The adviser then prepares and delivers analysis and recommendations to the client. Recommendations may be in a written/electronic format, or in the form of verbal (in-person or phone) discussion, or both.

Clients engage Financial Counseling, Inc. on a “pay as you go” basis. The services a client receives are dependent upon the individual needs and requests by the client, but often times the services rendered are continuous and on-going. The investment management services provided by Financial Counseling, Inc. often involve investment modeling where trades are conducted with the use of Adviser discretion. The Adviser will perform “active” management to a client’s account in accord with pre-described/defined goals and risk tolerances provided by the client. When discretionary authority has been given to Financial Counseling, Inc. or one of the IARs of FCI and company, this allows FCI to “take action” without first receiving approval from the client. The “action” is limited to purchases and/or sales of securities (Stocks/Bonds/Mutual Funds/ETFs...), but does not allow the Adviser to move funds between accounts or transfer assets from the account. All transactions occur at a qualified custodian that produces statements. These statements may be produced monthly, but must be produced at least quarterly and contain the basic account value and holdings of the managed accounts along with listing the activity that occurs within the account(s) being managed by FCI. The statement provided by the custodian will also contain the advisory fee charged by FCI. Fees charged by FCI are separate from the fees charged by Mutual Funds and other investment companies. Therefore, FCI recommends consulting the Mutual Fund prospectus for more information about their fees. More information is available about the Active Management program under Item 8 of this document.

FCI also provides long term buy and hold services that do not involve active management of client accounts. Clients may choose a service that offers asset allocation services that are managed by FCI that make less active transactions and is designed to keep expenses low, while offering market related rates of return. If services are selected that do not entail discretionary authority, then clients are free to implement all, some, or none of the Adviser’s recommendations and the full responsibility of implementation rests with the client.

FCI offers services of Third Party Investment Advisers to manage portfolios on behalf of clients. Prior to selecting other advisors FCI validates that the entity is properly licensed or registered as an investment adviser. If the Client engages a Third-Party Investment Adviser, at the IARs recommendation, the fees,

and their method of calculation, are carefully described in the Third-Party Investment Adviser's Disclosure Brochure. The client should consult the third-party adviser's Disclosure Brochure to determine: (a) if compensation is payable before the service is provided; (b) when compensation is payable; (c) how a client may get a refund; and (d) how a client may terminate an advisory contract before its expiration date. Such fees may be negotiable. A portion of the fees charged to the Client by the Third-Party Investment Adviser is allocated to FCI and the IAR for introducing accounts to the advisor. Clients are not charged a higher rate for being referred to a Third Party Adviser.

Client-tailored advisory services are based on the individual needs of clients. This is accomplished through specific meetings and interviews, both face to face and via phone or electronic communication with the client. The services that we offer are individually client focused and each client will prepare written statements of objectives and risk tolerances for the Adviser to acknowledge while providing advisory services. While clients may impose restrictions regarding certain types of securities, those restrictions should be provided to the Adviser in writing so we can appropriately document and adhere to those wishes of the client. It is possible, that even though we provided individualized investment advice, clients may qualify for investment models that include many clients of similar goals and circumstance with regard to investment objectives and risk tolerances. Therefore, other clients may be invested in substantially similar fashion, but each client is able to make independent action with their accounts by contacting the Adviser and giving them independent instruction.

When clients request services related to financial planning a conflict exists between the interests of the investment adviser and the interests of the client. The client is under no obligation to act upon the investment adviser's recommendation, and if the client elects to act on any of the recommendations, the client is under no obligation to effect the transaction through the investment adviser. Clients are free to take the advice offered and implement that advice through other unaffiliated advisors or financial providers outside Financial Counseling, Inc. Please note, as described in Item 10 and Item 12 of this document, if clients elect to use Financial Counseling, Inc. as the execution agent for the financial plan, the members of Financial Counseling, Inc. will likely receive extra fee compensation above and beyond the fees paid by client for the financial plan. Therefore, a conflict of interest may exist to sell one product over another. Clients may be able to find similar services at a lesser cost at other financial advisory firms.

As a registered investment adviser subject to Section 206 of the Advisers Act, FCI acts as a fiduciary related to the conduct of its investment management and advisory services. As such, FCI has an obligation to act in the best interest of its clients guided by the core fiduciary duties of loyalty and care.

FCI will adhere and comply with the following Impartial Conduct Standards:

- (1) FCI will provide advice that is, at the time of the recommendation, in the Best Interest of the Retirement Investor. Such advice shall reflect the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims, based on the investment objectives, risk tolerance, financial circumstances and needs of the client, without regard to the financial or other interest of FCI or any affiliate, related entity or other party;

- (2) The recommended transaction will not cause FCI or their affiliates or related entities to receive, directly or indirectly, compensation for their services that is in excess of reasonable compensation within the meaning of ERISA Section 408(b)(2) and Code Section 4975(d)(2).
- (3) Statements by FCI to the client about the recommended transactions, fees and compensation, material conflicts of interest and any other matters relevant to a client's investment decisions, will not be materially misleading at the time they are made.
- (4) Stevan Vaughan, FCI's Chief Compliance Officer is designated as the person available to discuss matters such as conflicts of interest, potential conflicts of interest and FCI's fiduciary status.

#### *Item 5 – Fees and Compensation*

Fees are charged on a "pay as you go" basis. Fees are negotiable and may vary from client to client. Fees are quoted in advance and must be accepted by client prior to project commencement or investment management. Executing a signature on the client agreement or paying a partial/full payment of fee acknowledges acceptance by client.

Financial Counseling, Inc. negotiation of investment management fees are based on one or more of the following factors:

- The number of accounts, positions, account objectives, risk tolerances and restrictions requested by the client
- The estimated amount of time expended in researching, analyzing and documenting the specific recommendation(s) and course(s) of action.
- The requests of each client regarding follow up and forms of communication requested
- The familiarity (or lack thereof) between FCI and the client based on experience and client interaction
- A competitive analysis of other advisory firm's fees
- The total amount of assets requested to be managed

Client agrees to supply Financial Counseling, Inc. with the ability to deduct fees from the account(s) on a quarterly basis. This fee deduction process will occur in arrears of service provided and will be accompanied by a quarterly fee notification that will be supplied to the client and evidenced on the account statement produced by the qualified custodian. Quarterly fees are based on the ending value of securities on the last day of the quarter.

The following is an example of how a quarterly fee is calculated:

\$800,000.00 value of assets under management on the last day of the quarter at an annual fee of 1.5% would render the following quarterly bill.

1.5% annual fee divided by 4 individual quarterly periods = 0.00375

\$800,000.00 x 0.00375 = \$3000.00 Fee for the quarter

Advisory fees are calculated, and billed quarterly, in arrears. The maximum advisory fee charged will not exceed 2% in a given year, but is subject to change, and is subject to negotiation and individual determination based upon particular facts and circumstances of a client and the extent of advisory services anticipated. Clients may choose to pay fees by check or opt to have the fees debited directly from client's accounts as stated in the Client Services Agreement. These fees may be considered higher than average as related to other investment advisory firms, as such, clients may be able to attain similar services at a lesser cost elsewhere.

The following billing description items listed as 1, 2 and 3 are only pertinent for clients who reside in California: When FCI is granted the authority to deduct fees directly from a client's account, the following processes will occur:

1. FCI will possess written authorization from the client to deduct advisory fees from an account held by a qualified custodian.
2. FCI sends the qualified custodian written notice of the amount of the fee to be deducted from the client's account. This notification is often performed electronically at the same time as the fee billing is sent to the custodian.
3. FCI sends the client a written invoice itemizing the fee, including any formulae used to calculate the fee, the time period covered by the fee and the amount of assets under management on which the fee was based. This invoice is sent quarterly at a time prior to the billing.

In rendering services described above, FCI makes recommendations only, these recommendations can be implemented through FCI in the following methods: Non-discretionary or Discretionary.

Discretionary Transactions are directed by FCI for accounts that have a limited discretionary authority agreement. Clients who choose to provide FCI with discretion have empowered FCI to buy and sell securities without the client's prior knowledge or consent. Clients may, by contract, place restrictions on FCI's discretionary authority.

### **FEE SCHEDULE (See Client Agreement)**

The following fee schedule is provided as a general guideline for fees charged by Financial Counseling, Inc. Advisory fees will be charged in arrears on a calendar quarterly basis based upon the value of the client's portfolio on the last business day of the calendar quarter. Advisory fees will be charged on those accounts managed through the RIA's custodian as well as those accounts which the Adviser recommends to the client and which are directed by the client in other accounts. The Accounts managed for a part of the quarter will be charged a prorated portion of the advisory fees for the quarter.

#### **Strategic Asset Allocation**

0 – 2,999,999	range: 1.00%
3,000,000 or more	range: negotiable

## Tactical Asset Allocation

0 – 2,999,999	range: 1.50%
3,000,000 or more	range: negotiable

The maximum advisory fee charged will not exceed 2.00% in a given year. Each client contract is individually negotiable with respect to the fee. You may be able to attain similar services at a lesser cost from other financial service providers.

Financial Counseling, Inc. has no direct relationship with any specific custodian and receives no commission compensation from TD Ameritrade Institutional with regard to client transactions. The platform at TD Ameritrade Institutional is a quality, low fee, low ticket charge, brokerage option that has been a good fit for investment management services.

Financial Counseling, Inc. management programs are not considered “wrap fee programs” in that clients are responsible for paying any and all transaction costs, including, but not limited to customary ticket charges, postage and service fees and annual maintenance fees that may be issued by the custodians.

### **Services for fees based on assets under management for TPIA:**

Prior to selecting other advisors FCI validates that the entity is properly licensed or registered as an investment adviser. If the Client engages a Third-Party Investment Adviser, at the IARs recommendation, the fees, and their method of calculation, are carefully described in the Third-Party Investment Adviser’s Disclosure Brochure. The client should consult the third-party adviser’s Disclosure Brochure to determine: (a) if compensation is payable before the service is provided; (b) when compensation is payable; (c) how a client may get a refund; and (d) how a client may terminate an advisory contract before its expiration date. Such fees may be negotiable. A portion of the fees charged to the Client by the Third-Party Investment Adviser is allocated to FCI, Inc. and the IAR for introducing accounts to the adviser.

### *Hourly Charges and Fixed Fees Charged by Adviser*

Adviser provides investment planning services consistent with individual client's financial and tax statues, risk tolerance and investment objectives. These services are offered to clients who wish to engage deeper analysis of their financial objectives that what is generally provided through regular meetings. Special projects such as retirement cash flow planning analysis and education funding planning are examples of such planning services. The current client base serviced by Financial Counseling does not often require in-depth financial planning services, but the services are available if needed. Fees are billed at a negotiated rate between the parties. Hourly fees usually range from \$150 to a maximum rate of \$400 per hour. The client may make structured payments with a portion of the fees paid up-front and the remainder of payments made upon completion of the service(s). These options are available in the client agreement. Planning fees are often paid by check, but if the client chooses, they may have the fees debited directly from accounts managed by Adviser. These services may also be negotiated as a fixed fee. Unless otherwise stated, client agreements are for a period of



one year and are automatically renewed each year. The Client or Adviser may terminate the advisory agreement at any time upon thirty (30) days written notice. There is no provision for refunds when services have been rendered.

In certain instances, depending upon the client's needs and the services to be performed by the Adviser, the advisory fee may be based upon individual negotiations with the client. In such instances, the fee is stipulated and agreed upon in the advisory contract.

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

Financial Counseling, Inc. does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

#### *Item 7 – Types of Client*

Financial Counseling, Inc. takes an active approach to managing the types of clients that are accepted by the firm. The clients that Financial Counseling, Inc. currently chooses to work with are often “main street” everyday people. There are some clients that have high net worth and would be considered “accredited” investors (individual net worth of any natural person, or joint net worth with the spouse of that person, at the time of purchase, is more than \$1,000,000 [as such amount is adjusted periodically by rule of the Commission], excluding the value of the primary residence of such natural person.) However, Financial Counseling, Inc. does not impose any account limits or restrictions for maintaining or managing an account. The firm requires clients to disclose current financial status and investment objectives to the Adviser at the time of opening an investment account. These documents are updated as needed. Clients are requested to inform the Adviser whenever the client has experienced a significant change in financial status or condition or wish to change the investment objectives on the account. (Example: Client wishes to change investment objective from Aggressive Growth to Moderate. The client would need to complete a new account form that evidences this request.) In general, most clients are residents of the State of Ohio, while a few live in multiple locations largely dependent on the different seasons of the year.

FCI's clientele could be categorized as individuals, high net worth individuals, businesses, trusts and charitable organizations. The services offered to each may vary and is largely dependent upon the client's unique circumstances. Financial Counseling, Inc. has each client execute an independent agreement and each agreement offers services separately to each individual client. There are no requirements for opening or maintaining an account, such as minimum account size or other restrictions.

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

Adviser offers clients an investment service called Strategic Asset Allocation, which is generally managed according to the principles of asset allocation. This service attempts to optimize the

risk/reward profile of a client's portfolio by investing among several asset classes based upon a client's personal financial goals and risk preferences. Below is a brief description of the type of general strategies that may be used as guidelines by investment advisor representatives in structuring accounts with varying objectives.

### **Strategic Asset Allocation**

**Conservative Income allocation.** A conservative income portfolio usually seeks to generate income as its primary objective and preserve initial investments as its secondary objective. Conservative income portfolios tend to invest in a mix of income producing investments with a low degree of volatility. A typical conservative income portfolio may consist of about 20% in equity asset classes, and 80% in income asset classes, including fixed income and/or cash equivalents.

**Balanced Allocation.** A balanced portfolio usually has both capital preservation and growth as its primary objectives. Balanced portfolios tend to invest in a relatively equal mix of low to moderate risk securities. A typical balanced portfolio may consist of about 60% in equity asset classes and 40% in fixed income and/or cash/cash equivalents.

**Growth Allocation.** A growth portfolio usually seeks to generate long-term capital gains as its primary objective. Growth portfolios tend to invest in a mix of investments with potential for long-term capital appreciation with a more than moderate amount of volatility. A typical growth allocation consists of about 80% equity and 20% in fixed income and/or cash/cash equivalents.

**All-Equity Allocation.** An all-equity growth portfolio usually seeks to generate long-term capital gains as its primary objective. All Equity portfolios are aggressive portfolios and tend to invest in assets that may be considered high risk and tend to have more volatility. These portfolios may have the potential for higher returns over the long-term. A typical all-equity portfolio consists of about 98% in equity asset classes with only about 2% in cash/cash equivalents.

Since client portfolios are designed to be managed in accordance with the financial circumstances, investment objectives, and preferences of individual clients, the actual asset allocation of a particular account may differ from other client accounts with similar objectives or levels of risk. Asset allocation is driven by various mathematical computations, and is more complex than the concept of asset diversification. It should be recommended that no strategy or allocation formula can guarantee a gain, or assume that an account will suffer a loss.

The program is designed to offer clients a diversified long-term approach to their personal investment goals and objectives. It is important that you keep your investment advisor representative informed as to any changes in your financial situation. This service provides clients with individualized investment portfolio management services, including account review and investment recommendation. Selected investments may include: stocks, bonds, mutual funds and other securities.

### **Tactical Asset Allocation**

Adviser offers a service to clients called Tactical Asset Allocation pursuant to an agreement between Adviser and the client. Tactical Asset Allocation is a program designed to reposition or reallocate the client's assets based on information obtained from multiple research services. The Adviser through a comprehensive client interview including a discussion of the client's stated investment objectives, financial condition, tax situation, time horizon and risk tolerance will select a model that he believes to be the most suitable after analyzing the gathered data.

Asset allocation and security selection decisions are then made with the aid of computer models that are labeled with investment objectives: Growth, Moderate, Conservative or Bond focused. The portfolio of models may already exist or if the Adviser deems necessary, a new model portfolio may be constructed for the client individually. The model portfolios are often comprised of multiple asset categories and sectors and have the ability to perform multiple styles of asset allocation including ranges from 100% equity exposure to 100% cash exposure. Investment overlap and diversification are key components to the investment portfolio design.

While the typical asset allocation elected by a large majority of the investment advisory community would include Large Cap, Mid Cap, Small Cap, Bonds and International segments. Our growth model processes often evaluate all of those, but also may include special sectors like: financials, global/foreign, gold, commodities, natural resources, technology, health care, real estate, region specific/country specific, utilities, world bonds and more... thus allowing the models to select risk appropriate positions from a large population of investment opportunities.

Once the initial asset allocation model is determined, assets may be reallocated at any point in time as appropriate. Trading in these accounts may occur as frequently as weekly or monthly, but typically specific position changes occur every 30 to 150 days. Positions may be left intact for long periods of time if deemed appropriate by Advisor. Reallocation of assets will trigger taxable events except where IRA accounts, 401(k), 403(b) accounts or other qualified retirement plans or accounts are involved.

There are substantial risks involved by investing in securities. Investing in securities involves risk of loss that clients should be prepared to bear. It is the client's responsibility to read and review the monthly/quarterly statements and provide feedback as to their comfort or lack thereof with the then current asset allocation of their individual portfolio(s). Our method of investing is "active", so the allocation that exists one day or one week may not be representative of the allocation the following day, week, month or quarter. Therefore, we recommend establishing an electronic access to the custodian who holds or custodies your securities and provides monthly or quarterly statements. The electronic access will allow clients to view the account as frequently as they like and will offer a more recurrent analysis of the portfolio's progress.

Additionally, there are complexities and risks associated with trading securities including, but not limited to: execution or trading errors, price volatility, bid/ask spreads, order types (such as "market" and "limit" orders), deviation from net asset value and "execution price slippage" caused by lack of order or book depth. This is commonly seen in some of the more thinly traded stocks or ETFs that don't usually experience a lot of daily trading volume. An example of such a dilemma was the

“flash crash” that the market experienced on May 6, 2010. On that day the Dow Jones Industrial Average plunged about 900 points only to recover those losses later in the trade day. It was the second largest point swing, 1010.14 points, and the biggest one-day decline, 998.50 points, on an intraday basis in Dow Jones Industrial Average History.<sup>1</sup> At current, Financial Counseling, Inc. heavily focuses on mutual funds that trade once per day, this helps minimize problems associated with industry intra-day price deficiencies. Exchange-traded funds (ETFs) are another tool that can be used by FCI to “actively” manage client accounts, but the price execution risk is much higher with ETFs than mutual funds, because their price fluctuates like a stock and can be traded multiple times per day.

Use of leverage funds in a client’s portfolio often adds risk to the portfolio. Leveraged funds, which use futures and options to amplify returns, try to return two to three times the daily returns of a particular index. Financial Counseling, Inc. does not usually recommend leveraged funds to the general public as they are volatile positions that can move quickly and materially affect a client’s account value causing extensive damage to a portfolio. However, due to the liquidity that is often found as a characteristic of leveraged funds, FCI may from time to time purchase leveraged bond funds that contain 1.2 times or more the movement of the respective bond index. The use of such leverage is often conducted to accommodate specific liquidity needs of the client or to activate new investment assets that have been transferred into the client’s portfolio. Other leveraged sector funds could be used to accommodate liquidity issues as well, but the time frame for holding those volatile positions would likely be short.

Clients have the right to place a restriction on their account that would not allow the use of leveraged investments in their portfolio. That restriction request must be performed in writing. However, this restriction would not require the Adviser to know how the individual fund invests internally. Many mutual funds use options, futures and derivative instruments to invest public clients’ assets. This restriction would merely cause the Adviser to stay away from funds that market an investment strategy that is designed to amplify the returns of an index in a leveraged fashion.

<sup>1</sup> [http://en.wikipedia.org/wiki/2010\\_Flash\\_Crash](http://en.wikipedia.org/wiki/2010_Flash_Crash)

#### **Services Third Party Investment Advisers:**

Prior to selecting other advisers FCI validates that the entity is properly licensed or registered as an investment adviser. When the Adviser refers clients to Third Party Investment Adviser (TPIA) firms registered with the SEC and various states, the Adviser receives a fully disclosed solicitation fee as compensation for introducing accounts to the approved third party investment Advisers. Such arrangements are completely and thoroughly described in the applicable TPIA’s Form ADV, Part 2A and client agreement. These materials are provided to the client prior to engaging the services of the approved third party described.

Clients are asked to provide detailed financial and other pertinent data to the Adviser. The Adviser helps the client determine his/her risk tolerance, investment goals, tax situation, financial status and other relevant investment guidelines. In consultation with the Adviser, the client will choose an Adviser

based on these guidelines. The Adviser will provide the client with both this Disclosure Brochure and the chosen TPIA's Disclosure Brochure.

Upon selection of a TPIA firm, the client will sign the applicable Adviser's Advisory Contract and deposit funds in an appropriate account. Thereafter, the client's funds will be invested as recommended by the TPIA's internal Advisers. The Adviser will engage in a review of the services provided by the approved third party investment Adviser prior to offering the Adviser's services to clients. The Adviser will aid clients in the selection of the appropriate third party investment Adviser.

The risks associated with this program involve potential loss of principal and the potential for negative returns on any given day, month, year or other time frame. Third Party Investment Advisers are often used for their unique style or a specific investment characteristic; each one would be saddled with potential benefits and potential drawbacks. Since, no trading strategy can guarantee against a loss of account value, the client should weigh the potential benefits versus the potential negatives that come with such trading activity. The specific Disclosure Brochure of each TPIA will contain descriptions of potential risks. The client should read the Disclosure Brochure of the TIPA prior to investing.

### *Material Risks*

Risk can be best defined as uncertainty or not knowing what is going to happen to your investment.

Clients considering investments should consider various risks including the following:

- **Interest Rate Risk** – This is the variability in a security's return resulting from changes in the level of interest rates. Such changes affect all securities inversely. Interest rate risk affects bonds more directly than common stocks, and is a major risk faced by all bondholders. As interest rates change, bond prices change in an inverse direction.
- **Market Risk** – Market risk is the variability in returns due to fluctuations in the overall market – that is, the aggregate stock market. All securities are exposed to market risk, although it affects primarily common stocks. Market risk includes a wide range of factors outside of securities themselves, including recessions, wars, structural changes in the economy, and changes in consumer preferences.
- **Inflation Risk** – A factor affecting all securities is the chance that the purchasing power of invested dollars will decline. With uncertain inflation, the real (inflation-adjusted) return involves risk even if the nominal return is historically safe, as in – for example – a US Treasury bond.
- **Business Risk** – The risk of doing business in a particular industry or environment is called business risk.
- **Financial Risk** – Financial risk is associated with debt financing by companies. The larger proportion of assets financed by debt (as opposed to equity), the larger the variability in the returns. Financial risk involves the concept of financial leverage.
- **Liquidity Risk** – This is the risk associated with the particular secondary market in which a security trades. An investment that can be bought or sold quickly and without significant

price concession is considered liquid. The more uncertainty about the time element and the price concessions, the greater the liquidity risk. A Treasury bill has little or no liquidity risk whereas a very small stock may have substantial liquidity risk.

#### *Item 9 – Disciplinary Information*

Registered Investment Advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to one's evaluation of Financial Counseling, Inc. or the integrity of FCI's management (and each supervised person providing investment advice). Financial Counseling, Inc. has no information applicable to this item regarding the firm or its principal owner and adviser, Stevan M. Vaughan, or the rest of the Investment Advisory Representative (IAR) staff.

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

Financial Counseling, Inc. does not have other industry activities or affiliations.

FCI uses TD Ameritrade as its primary custodian of client assets. When accounts are opened at TD Ameritrade they are handled strictly on a fee basis. All mutual fund securities trades at TD Ameritrade are conducted at net-asset-value (NAV), which means no commissions can be generated or received by the Adviser. Additionally, commissions called trail commissions or 12b-1 fees are not paid to the Adviser under the TD Ameritrade custodial platform. So, the TD Ameritrade platform can be truly considered a fee only program by FCI. However, if ETFs or other securities transactions are placed at TD Ameritrade ticket charges or transaction costs are issued. Those charges are levied by TD Ameritrade and IARs do not share in any portion of the ticket charges to execute transactions through TD Ameritrade.

None of the Investment Adviser Representatives or other management personnel associated with FCI have any applications pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing.

Prior to selecting other advisers FCI validates that the entity is properly licensed or registered as an investment adviser. A conflict of interest may exist when an Adviser recommends the services of a third party who has agreed to share a portion of its management fee with the adviser. Compensation paid to FCI by third party managers may vary and thus there may be a conflict of interest in recommending a manager who shares a larger portion of its advisory fees over another manager. However, fees charged to the client are not higher they otherwise would have been had the client obtained the services directly from the third party money manager.

FCI may receive monetary and other assistance from financial institutions with whom it conducts business. Financial institutions may assist in the payment of client appreciation dinners, client seminars, client educational events, and may provide research and due diligence. Financial institutions may also provide guest speakers for client events. Financial institutions may also invite FCI's Advisers to its educational conferences and pay for certain expenses. Assistance granted by financial institutions to FCI may incentivize FCI to conduct business with certain financial institutions, thereby creating the potential for a conflict of

interest. Stevan Vaughan, FCI's Chief Compliance Officer, remains available to address any questions that a client or prospective client may have regarding the above potential conflict of interest.

### *Item 11 – Code of Ethics*

Financial Counseling, Inc. has created a code of ethics that is designed to help educate and monitor the business conduct of our office staff. The code emphasizes the firm's fiduciary duty to clients and produces a heavy burden on the staff to maintain client confidentiality. A copy of the code of ethics is available to clients or prospective clients upon request.

Stevan M. Vaughan or other employees of Financial Counseling, Inc. may occasionally buy or sell securities (including mutual funds) for their own accounts. The firm may or may not recommend these securities to clients since recommendations vary according to an individual client's specific needs and circumstances. Additionally, staff members may use computer models that will actively allocate and may buy or sell securities without consideration of client holdings. These securities are publicly traded and it is highly unlikely that transactions in the personal accounts of the firm's employees could adversely affect the price or performance of the securities.

There can be a conflict of interest when home office personnel trade in the same securities that clients hold. Knowledge of large block orders into a specific security may induce a home office person to purchase the security prior to the large block order, which is against the fiduciary standard as well as securities rules and laws. This activity is called front running. Therefore, Financial Counseling, Inc. has policies and procedure to protect against this kind of activity by using block orders where home office trades are processed alongside of client trades and the execution prices are then level for both the client and the supervised home office personnel.

Should an employee become aware of any non-public information regarding a security, it is the firm's policy that the employee not act on such information for his/her own benefit or for the benefit of clients and report the information to Financial Counseling, Inc. management (and the proper regulatory authorities, if warranted).

### *Item 12 – Brokerage Practices*

Financial Counseling, Inc. may recommend brokerage platforms based on trading and technology, the depth and breadth of services, the customer service responsiveness and brokerage transaction costs and best execution records. Currently, Financial Counseling, Inc. often recommends the TD Ameritrade Institutional platform as its main brokerage/custodian. Such recommendation is based on the history and experience that Financial Counseling, Inc. has established with TD Ameritrade, but also due to the continued industry leadership and best execution practices they display in ongoing performance.

We routinely recommend the clients direct us to execute transactions through TD Ameritrade because we believe their trading and execution processes are as good as any in the industry. We do not receive

any additional economic benefit from TD Ameritrade with regard to our trading activity. Therefore, there is no additional conflict to disclose, however, TD Ameritrade is not infallible and may from time to time experience delays or lack of execution capabilities due to technology failings or personnel errors, as such clients may not be able to achieve the most favorable execution of transactions and the use of a single custodian may cost clients more money. Clients may pay higher brokerage commissions because orders may not be able to be aggregated to reduce transaction costs, or the client may receive less favorable prices.

During the execution of client orders, if multiple clients are in the same investment portfolio, Financial Counseling, Inc. often aggregates orders, this can help with the speed and accuracy of execution for client accounts as well as potentially reduce costs for execution. However, sometimes clients are not made part of a larger group with the same investment objectives and in those cases the clients may be traded separately. Additionally, if the client requests a specific trade in a specific security it would likely be executed without the potential benefits of order aggregation. Order aggregation alone does not guarantee a less execution cost, but in general it usually has benefits over individual order execution.

#### *Item 13 – Review of Accounts*

The reviews of client accounts in the Financial Counseling, Inc. program are performed periodically and/or at least quarterly. These reviews will encompass performance evaluation, asset allocation analysis and customer suitability review. The triggering factors for evaluation may include, but are not limited to: change in product composition, change in market condition, change in management philosophy, change in client's financial condition, and any other change of which client apprises the Adviser. Levels of review include: summary review of account statements; in-depth review of statements, objectives and current performance. The client may be invited to attend a detailed review involving a meeting to discuss any and all related investment strategy and/or future planning. Stevan M. Vaughan conducts the review process, with occasional assistance from other office staff. The role of the office staff is largely administrative in gathering the material for review.

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

Financial Counseling, Inc. does not enter into referral/solicitor agreements.

When dealing with California residents, the compensated person(s) are properly registered as solicitors and follow the requirements under CCR 260.236(c)(2). At current, there are no solicitors involved with our firm who actively solicit on our behalf to residents of California. If this changes in the future, we will amend this section.



## *Item 15 – Custody*

The billing practices of Financial Counseling, Inc. are now considered to create a form of custody since advisory fees can be deducted directly from client accounts. This form of custody is very limited. Financial Counseling, Inc. is not permitted to take control of any client assets or transfer client assets to or from a client's account unless directed or authorized by the client to do so. FCI does not take possession of client securities or assets. They are held at places like TD Ameritrade Institutional that meet the standards and requirements that include providing statements to all clients that reflect their securities activity during a given quarter.

“Custody” means “holding, directly or indirectly, client funds or securities, or having any authority to obtain possession of them.” Custody includes “any arrangement, including a general power of attorney, under which the investment adviser or investment adviser representative are authorized or permitted to withdraw client funds or securities maintained with a custodian upon the investment adviser's or investment adviser representative's instruction to the custodian.”

The following billing description items listed as 1, 2 and 3 are only pertinent for clients who reside in California: When FCI is granted the authority to deduct fees directly from a client's account, the following processes will occur:

1. FCI will possess written authorization from the client to deduct advisory fees from an account held by a qualified custodian.
2. FCI sends the qualified custodian written notice of the amount of the fee to be deducted from the client's account. This notification is often performed electronically at the same time as the fee billing is sent to the custodian.
3. FCI sends the client a written invoice itemizing the fee, including any formulae used to calculate the fee, the time period covered by the fee and the amount of assets under management on which the fee was based. This invoice is sent quarterly at a time prior to the billing.

Financial Counseling, Inc. is not affiliated with any custodial services and is “operationally independent” from any custodian that generates statements for clients. As such, Financial Counseling, Inc. merely performs the calculation of the fees and supplies that information to the custodian, who in-turn debits the fee and reports the activity on the statement. The basic provisions for the exemption that Financial Counseling, Inc. and its members adhere to are:

- Maintain accounts at a “qualified custodian”, institutions to which clients and advisers customarily turn for custodial services.
- Those custodians are subject to regulations and oversight.
- Financial Counseling, Inc. maintains a reasonable belief that the qualified custodians send statements directly to advisory clients.

These requirements are designed so that advisory clients will receive a statement from the qualified

custodian and have the opportunity to compare and contrast with any statements or other information they receive from their advisor to determine whether account transactions, including deductions to pay advisory fees, are proper. While Financial Counseling, Inc. often provides individual account assessments for clients on a quarterly basis, FCI is operationally independent from TD Ameritrade Institutional and other custodians. As such, we urge clients to compare the documentation provided directly from Financial Counseling, Inc. to the statements provided from the independent custodians.

#### *Item 16 – Investment Discretion*

Financial Counseling, Inc. develops active investment management portfolios. The most efficient way to execute this kind of modeling technology is through the use of discretionary authority to place trades prior to receiving instruction or confirmation from each client. The discretionary authority granted to Financial Counseling, Inc. when a client enters the client agreement is limited. The authority limits the discretion to purchases and sales within the account. Financial Counseling, Inc. members have no authority to transfer assets to or from accounts, other than when deducting fees on a quarterly basis. Therefore, the discretion is limited and may be canceled by the client at any time. However, the cancelation of the discretionary authority would likely necessitate the client being removed from the active management program.

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

Financial Counseling, Inc. does not vote proxies on behalf of clients. The proxies are sent from the custodian or Investment Company directly to the client's address of record. The client is welcome to vote proxies as they see fit. Financial Counseling, Inc. does not make recommendations as to how or for whom to vote.

#### *Item 18 – Financial Information*

Registered Investment Advisers are required in this item to provide you with certain financial information or disclosures about FCI's financial condition. Financial Counseling, Inc has no financial commitment that impairs its ability to meet its financial obligations and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding. The firm does not require or solicit prepayment of more than \$500 in fees per client, six months or more in advance.

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

If this disclosure brochure was not delivered to the client at least 48 hours prior to the client entering into any written or oral advisory agreement with this investment adviser, then the client has the right to terminate the agreement without penalty within five business days after entering into the agreement. For the purposes of this provision, an agreement is considered entered into when all parties to the agreement have signed the agreement, or in the case of an oral agreement otherwise signified their acceptance.

The information about our key registered personnel of Financial Counseling, Inc. can be found under Part 2B for each Investment Adviser Representative listed below:

Stevan M. Vaughan – DOB 1962. Graduate Oral Roberts University, Tulsa OK-1987 BA Degree in Theological and Historical Studies

Douglas Jared Moore – DOB 1978  
Graduate Asbury College, Wilmore, KY 2000  
BA Degree in Business Management

*Supervision conducted internally at Financial Counseling, Inc.*

Stevan Vaughan is the Chief Compliance Officer and is responsible for monitoring the daily activities and work produced by the IARs and employees of Financial Counseling, Inc. He works closely with the office staff conducting routine checks and balances. These compliance reviews are often conducted throughout the normal course of daily business, but some are more formal, such as the end of year annual audit and various other compliance meetings. Stevan is responsible for maintaining the code of ethics and other regulatory requirements.

Any potential issue regarding advice, service or processes of Financial Counseling, Inc. should be brought to the attention of the Chief Compliance Officer. This enables Financial Counseling, Inc. to be aware of the situation early in the review process and allows Stevan to take an active role in rectifying any problem or misunderstanding and resolving any potential conflict. Stevan maintains an “open door” policy and welcomes face-to-face meetings and direct phone contact. These are the best means of communication for dialog about any issues that may need to be addressed. Relationships tend to breakdown when there is a lack of communication and Stevan strives to keep the lines of communication open for both positive and negative feedback from clients.

#### *Other Business Activities*

Financial Counseling, Inc. is a registered investment adviser and its sole responsibility is offering fee-based investment advice. The Investment Adviser Representatives (IARs) who are individuals registered with Financial Counseling, Inc. do not have other business activities that are material to the securities industry.

#### *Additional Compensation*

Members of Financial Counseling, Inc. could be invited to due diligence meetings at the request of investment companies or other industry organizations. On occasion, travel reimbursements are made by those companies that extended the invitation. While these payments would only reimburse travel expenses, the appearance of “pay for production” may exist and as such the potential conflict of interest has been disclosed.

In order to be clear, accounts that are held at TD Ameritrade Institutional do not allow for any

commission payments of any kind to be paid to Financial Counseling, Inc. or any of its direct members. These accounts are fee based advisory accounts. The only compensation derived from TD Ameritrade accounts are the quarterly fees that are evidenced on each quarterly statement provided to the client directly from TD Ameritrade.

Financial Counseling, Inc. does not perform any services where it is compensated for advisory services with performance-based fees.

In summary, Financial Counseling, Inc. will continue to perform reviews of its policies and procedures to determine if there are any conflicts of interest that would need to be disclosed. As evidenced by the volume of material enclosed in this document, we believe we have disclosed any material conflicts of interest and look forward to continuing to service our client base with their best interests as the focus of our relationships. We have taken steps to have a written policy regarding our firms Business Continuity Plan if something was to happen to the key personnel of our office. If something happened to our office personnel, we are confident that your accounts would continue to be serviced. We value the trust clients put in choosing us as their Adviser and intend to continue to earn that trust with our daily dedication to our Fiduciary Standards.

The following section contains material facts regarding financial events that could prevent FCI from servicing clients or trigger a disclosure. We are pleased to report that we have not had any events that would trigger a disclosure of the items below:

FCI has not had paid any awards and has not been found liable in any arbitration claim alleging damages in excess of \$2,500.

FCI has not paid any award and has not been found liable in any civil, self-regulatory organization, or administrative proceeding.

### *Privacy Policy*

In order to facilitate the servicing of your account, the Adviser may receive nonpublic personal information about you from the following sources:

- Information we receive from you on questionnaires, applications, account opening documents or other forms;
- Information about your transactions with us or others;
- Information we receive from a consumer reporting agency; and
- Information we received from other sources with your consent.

We do not disclose any nonpublic personal information about you to anyone, except as permitted by law. Such disclosure may include the following:

- Disclosures to affiliates, including affiliated service providers (for example, insurance agencies for processing of variable insurance applications on your behalf);
- Disclosures to your chosen broker-dealer firm (for example, to establish a brokerage account on

- your behalf);
- Disclosures to government agencies, securities regulators and law enforcement officials (for example, for tax reporting, under a court order or to protect our legal rights);
  - Disclosures to other organizations, with your consent (for example, other investment advisor firms in order to open a managed account with their firm or the brokerage firm they utilize); and
  - Disclosures to other persons you authorize to obtain such information (for example, a CPA who will be preparing your tax return).

The Adviser restricts access to your personal and account information to those of its employees who need to know that information to provide products or services to you. The Adviser maintains physical, electronic, and procedural safeguards to guard your nonpublic personal information.

We will continue to adhere to the privacy policies and practices as described in this notice if you decide to close your account(s) or become an inactive customer.

If you have any questions concerning the Adviser's privacy policies and procedures, please feel free to contact us. Thank you.

Stevan M. Vaughan  
President