



## **Firm Brochure**

Part 2A of Securities and Exchange Commission FORM ADV

Directional Financial Services, LLC

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March 31, 2021

**This Brochure (“Brochure”) provides information about the qualifications and business practices of Directional Financial Services, LLC (“Directional”). If you have any questions about the contents of this Brochure, please contact us at (206) 508-3240 and/or via email at [compliance@directionalfs.com](mailto:compliance@directionalfs.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Additional information about Directional is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

Directional is registered as an investment adviser with the SEC pursuant to the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Recipients of this Brochure should be aware that registration with the SEC does not in any way constitute an endorsement by the SEC of an investment adviser’s skill or expertise. Further, registration does not imply or guarantee that a registered adviser has achieved a certain level of skill, competency, sophistication, expertise, or training in providing advisory services to its clients.

The SEC’s website also provides information about any persons affiliated with Directional who are registered, or are required to be registered, as investment adviser representatives of the firm.

## Item 2 – Material Changes

This section of the ADV Part 2A Brochure is meant to describe any material changes relating to Directional Financial Services, LLC that Clients should be aware of since the last annual update of this brochure dated March 30, 2020. Directional Financial Services, LLC wants to make you aware of the following material change:

- This brochure was updated to reflect the firm's new Chief Compliance Officer, Justin Buller, IACCP®, who was hired in January 2021.
- Item 18 *Financial Information section* of this Brochure has been updated to disclose receipt of a loan under the U.S. Payroll Protection Program.

Directional acts as an investment adviser under the Investment Advisers Act of 1940, as amended ("Advisers Act") in accordance with fiduciary standards. This Brochure dated March 31, 2021, is prepared according to the SEC's requirements and rules. This section covers only material changes. Other amendments may have been made to this brochure that may not have been discussed in our summary, and consequently, we encourage you to read this brochure in its entirety. You may request a full copy of the latest version of this document at any time by contacting the compliance department at [compliance@directionalfs.com](mailto:compliance@directionalfs.com) or by phone at (206) 508-3240.

**IMPORTANT NOTE ABOUT THIS DISCLOSURE BROCHURE**

This Disclosure Brochure is not:

- an offer or agreement to provide advisory services to any person
- an offer to sell interests (or a solicitation of an offer to purchase interests) in any Issuer
- a complete discussion of the features, risks, or conflicts associated with any Issuer

As required by the Investment Advisers Act of 1940, as amended (“Advisers Act”), Directional provides this Brochure to current and prospective clients and may also, in its discretion, provide this Brochure to current or prospective investors in a private pooled investment vehicle, together with other relevant governing documents, such as the private pooled investment vehicle’s private placement memoranda or offering circular, prior to, or in connection with, such persons’ investment in the private pooled investment vehicle.

Although this publicly available Brochure describes investment advisory services and products of Directional, persons who receive this Brochure (whether or not from Empirical) should be aware that it is designed solely to provide information about Directional as necessary to respond to certain disclosure obligations under the Advisers Act.

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#### **Item 4 – Advisory Business**

Directional Financial Services, LLC (“Directional”, “DFS”, “we”, “us”) is a wholly-owned subsidiary of Empirical Financial Services, LLC doing-business-as Empirical Wealth Management (“Empirical”), an investment adviser registered with the U.S. Securities and Exchange Commission (“SEC”) pursuant to the Investment Advisers Act of 1940, as amended (the “Advisers Act”).

Directional was started by Kenneth Smith (Empirical’s majority owner and CEO) in 2014 to meet the investment needs of clients that do not meet the minimum requirements of Empirical. Kenneth Smith started Empirical in December 2009. Empirical is a spin-off from Empirical Wealth Management, LLC an Oregon company that Ken was a founding member of in 2006. On December 31, 2012, Empirical purchased Empirical Wealth Management, LLC from its remaining original members, re-merging both companies as a Washington LLC under the name of Empirical Financial Services, LLC doing-business-as Empirical Wealth Management.

#### **Asset Management**

Directional provides portfolio management services both through Institutional Intelligent Portfolios™, an automated, online investment management platform for use by independent investment advisors and sponsored by Schwab Performance Technologies, Inc. (the “Program” or “SIIP” and “SPT,” respectively), as well as for clients that are not involved with the Program (“Non-SIIP Clients”). The portfolios of clients enrolled in the Program are monitored by the online investment management platform sponsored by SPT. Non-SIIP Clients are monitored manually by Directional’s trading team.

Through the Program, Directional offers clients a range of investment strategies that we have constructed and manage, each consisting of a portfolio of exchange traded funds (“ETFs”) and a cash allocation. For Non-SIIP Clients, the investment strategies offered that Directional constructs and manages consist of both a portfolio of ETFs, a portfolio of mutual funds, and a cash allocation. For all clients, the client’s portfolio is held in a brokerage account opened by the client at SPT’s affiliate, Charles Schwab & Co., Inc. (“CS&Co”). Directional is independent of and not owned by, affiliated with, sponsored by, or supervised by SPT, CS&Co, or their affiliates (together, “Schwab”). The Program is described in the Schwab Performance Technologies, Inc. Institutional Intelligent Portfolios™ Disclosure Brochure (the “Program Disclosure Brochure”), which is delivered to clients by SPT during the online enrollment process.

Directional, and not Schwab, is the client’s investment advisor and primary point of contact with respect to clients enrolled in the Program, as well as those not enrolled in the Program. We are solely responsible for choosing a suitable investment strategy and portfolio for the client’s investment needs and goals, and managing that portfolio on an ongoing basis. SPT’s role with regard to the Program is limited to delivering the Program Disclosure Brochure to clients and administering the Program so that it operates as described in the Program Disclosure Brochure.

Directional’s advisory services include, among other things, providing advice regarding asset allocation and the selection of investments, which is guided by the stated objectives of each client. In addition, Directional considers its client’s risk profile and financial status prior to making any recommendations. Directional maintains ongoing and continuous discretionary authority and management for client accounts, subject, however to any reasonable restrictions the clients have placed on their accounts. Directional will choose which model is appropriate for each client based upon the items discussed above. Directional offers several investment portfolios designed to meet various needs, but portfolios are not designed specifically for each client.

#### Item 4 – Advisory Business (Continued)

Directional has contracted with SPT to provide us with the technology platform and related trading and account management services for the Program. This platform enables us to make the Program available to clients online and includes a system that automates certain key parts of our investment process (the “System”). The System includes an online questionnaire that helps us determine the client’s investment objectives and risk tolerance and select an appropriate investment strategy and portfolio. Clients should note that we will recommend a portfolio via the System in response to the client’s answers to the online questionnaire. The client may then indicate an interest in a portfolio that is one level less or more conservative or aggressive than the recommended portfolio, but we then make the final decision and select a portfolio based on all the information we have about the client. The System also includes an automated investment engine through which we manage the client’s portfolio on an ongoing basis through automatic rebalancing and tax-loss harvesting (if the client is eligible and elects).

Directional also offers a separate financial planning service that clients may elect to utilize. The financial planning service is designed to provide on-going, non-discretionary consulting services on the following topics: Cash Flow Planning, Insurance Planning, 401k Assessment and Recommendations, Mortgage Assessment, and School Loan Assessment. Clients who require more complex planning topics may opt-in for hourly financial planning to replace or supplement the on-going financial planning.

Clients do not pay fees to SPT in connection with their services, but we charge clients an investment advisory fee for our services as described below under *Item 5 Fees and Compensation*. Our fees are not set or supervised by Schwab. Clients do not pay brokerage commissions or any other fees to CS&Co. Schwab does receive other revenues in connection with the Program, as described in the Program Disclosure Brochure.

Directional does not currently pay Schwab fees for its services under the Program, but this arrangement is subject to change. Directional will not be required to pay fees to Schwab for the services it provides under the Program so long as Directional and/or its affiliated entity, Empirical, maintains at least \$100 million in client assets in accounts custodied at CS & Co. that are not enrolled in the Program. If Directional and/or Empirical does not meet this condition, then Directional would be required to pay Schwab an annual fee of 0.10% on the value of its clients’ assets in the Program. In this situation, the fee would not be passed down to clients and would be absorbed by Directional exclusively.

This fee arrangement presents a conflict of interest, as it provides an incentive for Directional to recommend that client accounts be maintained with Schwab. However, per Directional’s code of ethics and as a fiduciary, supervised persons of Directional will recommend that a client’s assets be custodied wherever is in their best interest and will place the firm’s and the individual’s economic benefits secondarily. Directional’s Compliance Officer, Justin Buller, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.

As of December 31, 2020, Directional managed \$9,029,790 on a discretionary basis and \$0 on a nondiscretionary basis.

### **Item 5 – Fees and Compensation**

As described in *Item 4 Advisory Business*, clients do not pay fees to SPT or brokerage commissions, custodial fees, or other compensation to CS&Co as part of the Program. Schwab does receive other revenues in connection with the Program, as described in the Program Disclosure Brochure. Brokerage arrangements are further described below in *Item 12 Brokerage Practices*.

Clients enrolled in the Program will generally pay an annual fee of 0.35% of the assets under management directly to Directional on a quarterly basis. Non-SIIP Clients will generally pay an annual fee of 0.50% of the assets under management directly to Directional on a quarterly basis. The specific way fees are charged by Directional is established in each client's written investment advisory agreement with Directional. All fees are negotiable. Clients are billed in arrears based on the average daily balance of the client's account for the previous calendar quarter. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Clients may withdraw or terminate the relationship at any time by submitting a request to disassociate to either Directional or CS&Co in writing. Termination will be considered effective immediately. The fees accrued up to the termination date will be deducted from the client's account.

Directional may, from time to time, amend the fee schedule with prior written notice to the client. Directional's fees will be paid directly to the firm from the client's account. Payment of fees may result in the liquidation of the client's securities if there is insufficient cash in the account. If the client's assets are invested in mutual funds, ETFs, or other similar vehicles, the client may be required to pay, in addition to the Directional's fee, a proportionate share of those instrument's fees and expenses. Account termination fees, wire transfers, check requests and other fees charged by the custodian are the responsibility of the client, and paid out of assets in the account.

### **Financial Planning Services**

For clients who elect to enlist Directional's financial planning services as well, clients may elect to either pay hourly upon completion of the plan based on the hours it took to complete the plan, or quarterly. Hourly rates are generally \$300 per hour. Quarterly fees are generally \$399 per quarter with a minimum agreement of 12 months. Quarterly fees are to be paid at the end of each quarter, and hourly fees are to be paid upon the completion of the financial plan. Clients may add hourly planning for projects that are above the scope of the quarterly financial planning services.

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

Directional 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 Clients**

Clients eligible to enroll in the Program include, but are not limited to, individuals, individual retirement accounts ("IRAs"), Simplified Employee Pension Individual Retirement Accounts ("SEP IRAs") and revocable living trusts. Clients that are organizations (such as corporations and partnerships), government entities, or are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") are not eligible for the Program. The minimum investment required to open an account in the Program is generally \$5,000. The minimum account balance to enroll in the tax-loss harvesting feature is \$50,000.

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

Directional's investment philosophy is based upon Modern Portfolio Theory (MPT). MPT theorizes that assets should be selected based upon how they interact with one another, rather than how they perform in isolation. Capital markets are composed of many classes of securities, including stocks and bonds, both domestic and international. A group of securities with shared economic traits is commonly referred to as an asset class. There are a number of asset classes, all with average price movements, that are distinct from one another. Per MPT, investors can benefit by combining the different asset classes in a structured portfolio.

We typically incorporate 7-11 distinct asset classes when building portfolios. When determining which asset classes to use in our model portfolios, we incorporate correlation research conducted by Eugene Fama and Kenneth French based on data dating back to the Great Depression. Our goal is to choose investments that offer good asset class diversification at a low price. We determine the amount to allocate to each asset class based upon each asset class' risk characteristics and the investment goal of the model portfolio. We invest in mutual funds and ETFs which are chosen based upon factors including, but not limited to, diversification characteristics, internal expenses, and tax efficiency.

The investment strategies we may use to implement investment advice given to you may include, but are not limited to, long term purchases, short term purchases, or trading (securities sold within 30 days). We may leverage, among other things, fundamental data, cyclical data, research materials prepared by other corporate rating services, annual reports, prospectuses, filings with the SEC, company press releases, financial newspapers and magazines, academic journals and articles and historical return information.

Investing in securities involves a risk of loss, including the loss of all amounts invested, that clients should be prepared to bear. We will use our best judgment and good faith effort in rendering services to you. We cannot warrant or guarantee any particular level of account performance, or that an account will be profitable over time.

Set forth below are some of the material risk factors that are often associated with the investment strategies and types of investments relevant to many of the Adviser's clients. **This is a summary only.** The information included in this Brochure does not include every potential risk associated with each investment strategy or applicable to a particular client account. Clients should not rely solely on the descriptions provided below. Clients are urged to ask questions regarding risk factors applicable to a particular strategy or investment product, read all product-specific risk disclosures and determine whether a particular investment strategy or type of security is suitable for their account in light of their specific circumstances, investment objectives, and financial situation.

The client should be prepared to assume all market risk involved in the investment of account assets and understand that investment decisions made for the account are subject to various markets, currency, economic, political and business risks. Other risks involved in our investment strategy include, but are not limited to:

- Equities: market risk, small premium risk, value premium risk, foreign currency risk, country risk, emerging markets risk, real estate risk, tracking error risk, liquidity risk
- Commodities: issuer risk, commodities risk, futures risk, liquidity risk
- Fixed Income: interest rate risk, reinvestment risk, corporate risk, municipal credit risk, inflation risk, liquidity risk, duration risk
- Options hedging: options risk, liquidity risk



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

Specifics regarding these risks are enumerated below:

### Market Risk

Market risk is the possibility of an investor experiencing losses due to factors that affect the overall performance of the financial markets in which he or she is involved. Market risk, also called "systematic risk," cannot be eliminated through diversification, though it can be hedged against.

### Small Premium Risk

Small companies have fewer resources than large companies, and are thus likely to be riskier investments.

### Value Premium Risk

In investing, value premium refers to the greater risk-adjusted return of value stocks over growth stocks. Eugene Fama and K. G. French first identified the premium in 1992, using a measure they called HML (high book-to-market ratio minus low book-to-market ratio) to measure equity returns based on valuation.

### Foreign Currency Risk

Currency risk, commonly referred to as exchange-rate risk, arises from the change in price of one currency in relation to another. Investors or companies that have assets or business operations across national borders are exposed to currency risk that may create unpredictable profits and losses.

### Country Risk

Country Risk Premium ("CRP") is the additional risk associated with investing in an international company, rather than the domestic market. Macroeconomic factors, such as political instability, volatile exchange rates, and political turmoil can all cause investors to be wary of overseas investment opportunities. For these reasons many such international opportunities require a premium for investing. The CRP is higher for developing markets than for developed nations.

### Emerging Markets Risk

Emerging markets often seem to provide new investment opportunities, their elevated economic growth rates offering higher expected returns – not to mention the benefits of diversification. However, there are a number of risks associated: Foreign currency can fluctuate, which can create unpredictable profits and losses. Emerging market securities cannot be valued using the same type of mean-variance analysis as they do not often follow a pattern of normal distributions. Although most countries claim to enforce strict laws against insider trading, none have proved to be as rigorous as the U.S. in terms of prosecuting these practices. Insider trading and various forms of market manipulation introduce market inefficiencies, whereby equity prices will significantly deviate from their intrinsic value. Emerging markets sometimes have weaker corporate governance systems, whereby management, or even the government, has a greater voice in the firm than shareholders. Furthermore, when countries have restrictions on corporate takeovers, management does not have the same level of incentive to perform in order to maintain job security. A poor system of checks and balances and weaker accounting audit procedures increase the chance of corporate bankruptcy. Political risk refers to uncertainty regarding adverse government actions and decisions. Developed nations tend to follow a free market discipline of low government intervention, whereas emerging market businesses are often privatized upon demand.

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

### Real Estate Risk

Real estate funds tend to be more volatile than broader-based growth or income funds. As with any other sector, investors can generally expect to be hit hard in these funds when the real estate market collapses and should keep a long-term perspective when allocating funds to this sector.

### Tracking Error Risk

Tracking error is the divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark. This is often in the context of a hedge or mutual fund that did not work as effectively as intended, creating an unexpected profit or loss instead. Tracking error is reported as a standard deviation percentage difference, which reports the difference between the return an investor receives and that of the benchmark he was attempting to imitate.

### Regulatory Risk

Regulators have passed and it is expected that they will continue to pass legislation and changes that may affect certain clients. The Adviser may take certain actions to limit its authority in respect of client accounts to reduce the impact of regulatory restrictions on the Adviser or its clients. In addition, there have been legislative, tax and regulatory changes and proposed changes that may apply to the activities of the Adviser that may require legal, tax and regulatory changes, including requirements to provide additional information pertaining to a client account to the Internal Revenue Service or other taxing authorities. Regulatory changes and restrictions imposed by regulators, self-regulatory organizations ("SROs") and exchanges vary from country to country and may affect the value of client investments and their ability to pursue their investment strategies. Any such rules, regulations and other changes, and any uncertainty in respect of their implementation, may result in increased costs, reduced profit margins and reduced investment and trading opportunities, all of which may negatively impact performance.

### Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. With liquidity risk, typically reflected in unusually wide bid-ask spreads or large price movements, the rule of thumb is that the smaller the size of the security or its issuer, the larger the liquidity risk.

### Issuer Risk

Essentially, the investor is lending the issuer funds, which are repayable when the bond matures or the stock is sold. As a result, the issuer is also considered to be a borrower, and the investor should carefully examine the borrower's risk of default before buying the security or lending funds to the issuer.

### Commodities Risk

Commodity price risk is the uncertainty that stems from changing prices that adversely impacts the financial results of those who both use and produce that commodity. For example, as the price of steel rises this increases the cost of automobile production and can negatively impact that producers profit margins. Commodity production inputs include raw materials like cotton, corn, wheat, oil, sugar, soybeans, copper, aluminum and steel.

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

### Futures Risk

The U.S. Treasury bond futures contract is one of the most heavily traded investment assets in the world. As with any similar investment, such as stocks, the price of a futures contract may go up or down. Like equity investments, they do carry more risk than guaranteed, fixed-income investments.

### Interest Rate Risk

The interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship. Such changes usually affect securities inversely and can be reduced by diversifying (investing in fixed-income securities with different durations) or hedging (such as through an interest rate swap).

### Reinvestments Risk

Reinvestment risk is the risk that future coupons from a bond will not be reinvested at the prevailing interest rate from when the bond was initially purchased. Reinvestment risk is more likely when interest rates are declining and affects the yield to maturity of a bond, which is calculated on the premise that all future coupon payments will be reinvested at the interest rate in effect when the bond was first purchased.

### Corporate Risk

This risk assumes the project a company intends to pursue is not a single asset but incorporated with a company's other assets. As such, the risk of a project could be diversified away by the company's other assets. It is measured by the potential impact a project may have on the company's earnings.

### Municipal Credit Risk

Municipal credit risk—or default risk—is the risk that interest and/or principal on the securities will not be paid on time and in full. Investors need to know who is responsible for repayment of the securities and the financial condition of that entity to assess the credit risk and decide whether to purchase the securities.

### Inflation Risk

Inflation Risk is also known as Purchasing Power Risk, this risk arises from the decline in value of securities cash flow due to inflation, which is measured in terms of purchasing power. You buy a bond with a coupon rate of 4%. The inflation rate is at 2%. Even though you are earning 4% on your money, inflation is chipping 2% of it away only leaving you with 2% of your money or purchase power, which you can use when you receive your payments. Only Inflation Protection Bonds such as TIPS offer protection against this risk. Floaters help reduce this risk because of the resetting of the interest rates. All other bonds expose the investor to this risk because the interest rate is fixed for the life of the bond.

### Duration Risk

The primary measure of bond price volatility is duration. It takes into account both the length of time to maturity and the difference between the coupon rate and the yield to maturity. Here are some of the most important facts about duration: The longer the duration of a particular bond, the more its price will fluctuate in response to interest rate changes. Duration is always equal to or less than the years to maturity of the bond. Duration can help to calculate the impact of interest rate changes on the price of the bond. For example, a bond with a duration of 8 is likely to decrease 8% for every 100 basis points increase in market interest rates.

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

### Options Risk

Any investing carries a certain amount of risk. Options investing assumes greater risk, so you should make sure you understand the pros and cons of the strategies you are considering before you start actively trading. All options expire — most at zero value. Unlike stock investing, time is not your friend when you are holding long options. The closer an option gets to expiration, the faster the premium in the option deteriorates. Because options are highly leveraged investments, prices can move very quickly. Options prices, unlike stocks, can move by hefty amounts in minutes or seconds rather than hours or days. Much like shorting stocks, shorting options naked (i.e., selling options without hedging the position via other options or a stock holding) could lead to substantial and even unlimited losses.

Targeted Premium Equity Portfolios are designed to offer exposure to investment asset classes such as emerging markets, global exposure to small companies and global exposure to value companies. At times, targeted segments of the global investment market may be more volatile and may present additional risks than a passively-weighted global index portfolio.

Targeted Credit Portfolios are designed to offer exposure to credit risks associated with investing in bonds that may include high yield debt. These bond asset classes will generally be more volatile than Treasuries or a total bond market index.

We do not recommend any particular type of security. Instead, we recommend a diversified portfolio of stocks, bonds, and other investment vehicles. We select investments within the context of achieving adequate levels of diversification rather than any single specific security type.

### Asset Allocation and Rebalancing Risk

The risk that a Client account's assets may be out of balance with the target allocation. Any rebalancing of such assets by Directional may be limited by several factors and, even if achieved, may have an adverse effect on the performance of the Client account's assets.

### Mutual Fund or ETF Risk

The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. When investing in an ETF or mutual fund, you will bear additional expenses based on your pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. Clients may incur brokerage costs when purchasing ETFs or mutual funds.

### Manager Risk

The investment strategies, research, analysis and the determination of a portfolio's securities by Directional may not be successful. The risk of loss due to allocations in the various assets may cause the client's account to underperform relative to benchmarks or other accounts with a similar investment objective.

### Concentration Risk

The increased risk of loss associated with not having a diversified portfolio (i.e., Client accounts concentrated in a geographic region, industry sector or issuer are more likely to experience greater loss due to an adverse economic, business or political development affecting the region, sector or issuer than an account that is diversified and therefore has less overall exposure to a particular region, sector or issuer).

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

### Privacy/ Cybersecurity Risk

The risk of actual and attempted cyber-attacks, including denial-of-service attacks, and harm to technology infrastructure and data from misappropriation or corruption, and reputation harm. Due to Directional interconnectivity with third-party vendors, exchanges, clearing houses and other financial institutions, Directional, and thus indirectly our clients, could be adversely impacted if any of them is subject to a successful cyber-attack or other information security event. Although Directional takes protective measures and endeavors to modify them as circumstances warrant, its computer systems, software and networks may be vulnerable to unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact or render Directional unable to transact business on behalf of clients.

### General Economic Conditions

Changes in general economic conditions may affect a Client's activities. Interest rates, general levels of economic activity, the price of securities and participation by other investors in the financial markets may affect the value and number of investments made by a Client or considered for prospective investment. Material changes and fluctuations in the economic environment, may affect a Client's ability to make investments and the value of investments held by the Client or the Client's ability to dispose of investments. A Client's portfolio investments can be expected to be sensitive to the performance of the overall economy. No assurance can be given as to the effect of these events on a Client's investments or investment objectives.

## **Item 9 – Disciplinary Information**

Registered investment advisors are required to disclose any material facts regarding any legal or disciplinary actions that would be material to your evaluation of the investment advisor and each investment advisor representative providing investment advice to you.

There are no reportable material legal or disciplinary events related to Directional.

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

Directional is a wholly-owned subsidiary of Empirical. Directional's affiliation with Empirical is described in Item 4 of the Brochure. We believe that the relationship between Empirical and Directional does not create a material conflict of interest. Supervised persons that share responsibilities for both firms are not incentivized to encourage a client to enter into an investment advisory relationship with one firm over the other. Such determination will be made solely based on the client's individual investment needs and goals.

Empirical discloses the following entities in Item 10 of its Disclosure Brochure. By virtue of Empirical's ownership of Directional, the following entities are affiliates of both firms. The services of these subsidiaries may not necessarily be available to clients of Directional. Please refer to Item 10 of Empirical's Disclosure Brochure for more thorough description of these entities and the relevant conflicts of interest they may pose.

#### **Wholly-Owned Subsidiaries**

##### Empirical Tax Services, LLC

Empirical Tax Services, LLC ("Empirical Tax"), offers tax preparation services to both advisory and non-advisory clients. Empirical Tax charges a separate fee (fixed or hourly) for tax preparation services, depending upon the scope and complexity of the services required. Generally, it is Empirical Tax's policy to offer clients of Empirical with assets under management above \$3,000,000 a discount on tax preparation services. This discount may result in tax preparation services being provided at no additional cost above your Empirical management fee.

Empirical's recommendation to use tax planning and preparation services provided by Empirical Tax causes a conflict of interest. However, Empirical Tax personnel are all employees of Empirical and are bound by the firm's code of ethics which requires that, as fiduciaries, all supervised persons place the best interests of their clients above their own personal interests. These services are offered as part of our goal to provide comprehensive wealth management, but you are not obligated to use them.

##### Empirical Insurance Services, LLC

Empirical Insurance Services, LLC ("Empirical Insurance"), offers insurance-planning services specifically designed to address the life, disability, and long-term care insurance needs of our clients. Empirical Insurance partners with Highland Capital Brokerage, who has a knowledgeable team dedicated to, among other things, carrier and product expertise, underwriting negotiation, and back-office processing. Empirical Insurance can review current coverage in the context of a client's financial plan, discuss risks insurance could help cover, and guide clients through the process of obtaining coverage. Empirical Insurance has access to many different insurance carriers, which allows them to compare the financial strengths, costs, and product benefits of these firms.

Empirical has employees who are affiliated with Empirical Insurance. These affiliated employees are appointed with various unaffiliated, third-party insurance companies. Empirical Insurance receives a commission when insurance is sold, and the respective affiliated employee receives a portion of that commission. You are never obligated or required to purchase insurance products through these affiliated employees in their capacity as insurance producers. This does create a material conflict of interest in that it provides an incentive for these affiliated employees to recommend insurance products based on compensation received rather than on a client's needs. As supervised persons of Empirical, these affiliated employees are bound by the fiduciary standards set forth in the firm's code of ethics to place the needs of each client above their own personal financial gain.

**Item 10 – Other Financial Industry Activities and Affiliations (Continued)**

Other affiliations

Secure Legacy Law Group, P.C. (“Secure Legacy”) is a separate, independent entity. Empirical refers clients with estate-planning needs to Secure Legacy and other outside attorneys. These relationships creates a material conflict of interest. However, Secure Legacy’s personnel are bound by the firm’s code of ethics which requires that, as fiduciaries, all supervised persons place the best interests of their clients above their own personal interests. These services are in place solely for the convenience of the client and to enhance the clients’ overall experience. clients are always free to use their own service providers.

If we recommend you use the services of Secure Legacy, you are never obligated or required to use their services. There are other law firms that provide legal services similar to those provided by Secure Legacy and may provide such services for less expensive rates. Whenever we recommend Secure Legacy, you are encouraged to consider other law firms too. Our recommendation to use Secure Legacy presents a conflict of interest as both firms have an economic incentive to refer clients to each other in lieu of referring clients to other law firms or financial professionals, but there is no obligation to provide such referrals to each other. Any engagement of Secure Legacy is separate and independent of our services, per a separate written agreement between you and Secure Legacy. There is no fee sharing arrangement between our firm and Secure Legacy.



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

Directional has adopted a code of ethics (“Code of Ethics”) for its supervised persons describing its high standard of business conduct and the fiduciary duty to its clients. The Code of Ethics includes, among other things, provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts, and personal securities trading procedures. All supervised persons must acknowledge the terms of the Code of Ethics upon commencement of employment with Directional and annually thereafter.

Under the Code of Ethics, Directional’s supervised persons are expected to, among other things:

- Always observe their fiduciary duties to investment management clients;
- Not take personal opportunities that are discovered through the use of property or information of the company or through their role with Directional;
- Protect the confidentiality of “nonpublic information” concerning the company, customers, clients, investments and others; and
- Not trade in the company’s securities or any other company’s securities if they possess material “non-public information” or during a blackout period.

Furthermore, in accordance with Rule 204A-1 under the Advisers Act, among other things, the Code of Ethics, 1) describes standards of business conduct, 2) contains provisions that require supervised persons to comply with all applicable state and Federal laws, 3) requires that all access persons (defined as supervised persons who have access to non-public information regarding a client’s investments or who are involved in making securities recommendations to clients) report and we review personal securities transactions and holdings reports, 4) requires that supervised persons report breaches of the Code of Ethics to the chief compliance officer (“CCO”) or his designee, and 5) stipulates that we deliver to and receive written acknowledgement from employees regarding their receipt of the Code of Ethics and any amendments. You may request a copy of our Code of Ethics by contacting your advisor or our CCO at [compliance@directionalfs.com](mailto:compliance@directionalfs.com)

We may render any advice or service concerning securities of companies in which any of our supervised persons may have a substantial economic interest, if we either determine in good faith that we may appropriately do so without disclosing such conflict to you or disclose such conflict to you prior to rendering such advice or services with respect to the account. This presents a conflict of interest in that there is a possibility that employees might benefit from market activity in your account in a security held by an employee. To ameliorate this conflict, employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between Directional and you. It is our expressed policy that no person employed by us will place his or her own interest over yours or make personal investment decisions based upon your investment decisions.

Empirical offers its advisory services to employees and manages employee accounts. Each such relationship is treated as any other advisory relationship and no favoritism is shown to employee personal accounts. These accounts may trade in the same securities with client accounts on an aggregated basis when consistent with our obligation to seek best execution. In such circumstances, the employee personal accounts and client accounts will share commission costs equally and receive securities at a total average price. We will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the order.

Our Code of Ethics prohibits the use of material non-public information and requires all access persons to act with the fundamental principles of openness, integrity, honesty, diligence, respect, trust, competence, and dignity, and to conduct themselves in an ethical manner. We will act as a fiduciary that owes each of our clients the duties of care and loyalty with respect to all services undertaken on your behalf. We will use reasonable care and exercise independent judgment when conducting investment analysis, making investment recommendations, taking investment actions and engaging in other professional activities.



## Item 12 – Brokerage Practices

### How We Select Brokers-Dealers/Custodians

We seek to use a broker-dealer/custodian who will hold your assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. We consider a wide range of factors, including but not limited to:

- Combination of transaction execution services along with asset custody services (generally without a separate fee for custody)
- Capability to execute, clear and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, etc.)
- Breadth of investment products made available (stocks, bonds, mutual funds, exchange traded funds (ETFs), etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength and stability of the provider
- Prior service to us and our clients
- Availability of other products and services that benefit us

### Our Current Broker-Dealer Relationships

The assets of both clients invested in the Program and Non-SIIP Clients will be held in a custodial account maintained by Schwab. Brokerage services will be performed by CS&Co, a broker-dealer registered with the SEC and a member of FINRA and SIPC. While both Non-SIIP Clients and clients enrolled in the program are required to use CS&Co as custodian/broker, the client decides whether to do so and opens its account with CS&Co by entering into an account agreement directly with CS&Co. We do not open the account for the client. Not all Advisers require that their clients direct brokerage. If the client does not wish to place his or her assets with CS&Co, then we cannot manage the client's account at Directional. CS&Co may aggregate purchase and sale orders for ETFs across accounts enrolled in the Program, as well as for Non-SIIP Clients, when possible. These aggregations will include both accounts for Directional's clients and accounts for clients of other independent investment advisory firms using the Program.

Schwab Advisor Services (formerly called Schwab Institutional) is Schwab's business serving independent investment advisory firms like us. Through Schwab Advisor Services, CS&Co provides us and our clients, both those enrolled in the Program and those not enrolled in the Program, with access to its institutional brokerage services as described below. These services are not typically available to CS&Co retail customers. Some of those services help us manage or administer our clients' accounts while others help us manage and grow our business. CS&Co's support services are generally available on an unsolicited basis (i.e., we don't have to request them).

Schwab Advisor Services – Services that May Directly Benefit You: CS&Co's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients.

## Item 12 – Brokerage Practices (Continued)

Schwab Advisor Services – Services that May Not Directly Benefit You: CS&Co also makes available to us other products and services that benefit us but may not directly benefit the client or its account. These products and services assist us in managing and administering our clients' accounts. They include, but are not limited to:

- Investment research – This includes both Schwab's own and that of third parties. We may use this research to service all or some substantial number of our clients' accounts, including accounts not maintained at CS&Co.
- Occasional business entertainment for Directional's supervised persons (in accordance with the Code of Ethics)
- Software and other technology
  - provides access to client account data (such as duplicate trade confirmations and account statements);
  - facilitates trade execution and allocates aggregated trade orders for multiple client accounts;
  - provides pricing and other market data;
  - facilitates payment of our fees from our clients' accounts; and
  - assists with back-office functions, recordkeeping and client reporting.
- Services intended to help us manage and further develop our business enterprise
  - educational conferences and events;
  - technology, compliance, legal, and business consulting;
  - publications and conferences on practice management and business succession; and
  - access to employee benefits providers, human capital consultants and insurance providers.

CS&Co may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. CS&Co may also discount or waive its fees for some of these services or pay all or a part of a third party's fees.

### Our Interest in Schwab Services

Directional does not have to pay for Schwab's services so long as Empirical keeps a total of at least \$100 million of client assets in accounts at Schwab. Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. The \$100 million minimum may give us an incentive to request that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. It may cause clients to pay commissions higher than those charged by other broker-dealers in return for these benefits. This may cost you more money. This is a conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in your best interest. It is primarily supported by the scope, quality and price of Schwab's services and not Schwab services that benefit only us. Directional's parent company, Empirical, has over \$2 billion in client assets under management at Schwab, and we do not believe that maintaining at least \$100 million of those assets at Schwab to avoid paying Schwab quarterly services fees presents a material conflict of interest.

### **Item 13 – Review of Accounts**

Client accounts are generally reviewed at least quarterly, or when special situations, such as large deposits or withdrawals, a change in investment strategy, or a client-directed change in investment policy occur. Account reviews may involve verifying that the client's allocation is sufficiently close to the target allocation, and a review of the client's cash needs. The reviewers are portfolio managers and/or advisors.

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

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us. These products and services, how they benefit us, and the related conflicts of interest are described above under *Item 12 Brokerage Practices*. The availability of Schwab's products and services to us is not based on us giving particular investment advice, such as buying particular securities for our clients.

### **Item 15 – Custody**

We do not act as custodian and do not take possession of client assets, Schwab will serve as the qualified custodian. Under government regulations, we are deemed to have custody of your assets if you authorize us to instruct your Schwab to deduct our advisory fees directly from your accounts. Recent SEC guidance also clarified that a standing letter of authorization granting third-party money movement constitutes custody as well. You will receive at least quarterly statements from Schwab. They will be sent to the email or postal address you provided to your custodian. You should carefully review those statements promptly when you receive them. We urge you to compare official custodian account statements to the quarterly account statements that you will receive from us. Our statements may vary slightly from custodian statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

### **Item 16 – Investment Discretion**

Directional usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. Authority is granted via a signed power of attorney and a signed investment advisory agreement. In all cases, discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account. Clients enrolled in the Program are not able to place limitations on this discretionary authority; however, Non-SIIP Clients may provide to Directional, in writing, requests to impose reasonable restrictions on their accounts.

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

As described in the Program Disclosure Brochure, clients enrolled in the Program designate SPT to vote proxies for the ETFs held in their accounts. Directional does not have the authority to vote proxies for these clients. Clients will obtain their proxies or other solicitations directly from SPT. Clients may obtain a copy of SPT's proxy voting policies and procedures from Schwab upon request. We have directed SPT to process proxy votes and corporate actions through and in accordance with the policies and recommendations of a third-party proxy voting service provider retained by SPT for this purpose. Clients may contact Directional regarding a particular solicitation via phone, email, or in person. If a client prefers that his proxies are voted in a particular manner, we can accommodate by having the client vote his or her own proxies directly. Additional information about this arrangement is available in the Program Disclosure Brochure. Clients who do not wish to designate SPT to vote proxies may retain the ability to vote proxies themselves by signing a written agreement with us.

Directional does not have the authority to vote proxies for Non-SIIP Clients, and so they must do so for themselves. Clients will obtain their proxies or other solicitations directly from the custodian. Clients may contact Directional regarding a particular solicitation via phone, email or in person.

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

Advisers are required in this Item to provide you with certain financial information or disclosures about Directional's financial condition.

In 2020, due to a loss of income as a result of Covid-19, Empirical received a loan under the Payroll Protection Program. While we do not believe that this financial commitment impairs our ability to meet contractual obligations to our clients, in the interest of providing full disclosure, we are including that information. Empirical has no other financial commitments that may impair our ability to meet our contractual obligations to our clients.