



## **Financial Management Network, Inc.**

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**October 23, 2023**

This Brochure provides information about the qualifications and business practices of Financial Management Network, Inc. If you have any questions about the contents of this Brochure, please contact us at (949) 455-0300 or via email at [jmerwin@fmncc.com](mailto:jmerwin@fmncc.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.

Financial Management Network, Inc. ("FMN") is a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information that you may use to determine whether to hire or retain them.

Additional information about FMN is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by using a unique identifying number, known as a CRD number. The CRD number for FMN is 110454. The SEC's web site also provides information about any persons affiliated with FMN who are registered, or are required to be registered, as Investment Adviser Representatives of FMN.

## Item 2 – Material Changes

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This Brochure dated December 21, 2022, is our most recent ADV Part 2 Brochure prepared according to the SEC's requirements and rules. Since our last annual updating amendment on December 23, 2021, we do not have any material change.

Pursuant to SEC Rules, we will ensure that you receive a summary of any material changes to our annual filing within 120 days of the close of our business' fiscal year which is September 30<sup>th</sup>. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Jeffrey Merwin, Chief Compliance Officer at (949) 455-0300 or [jmerwin@fmncc.com](mailto:jmerwin@fmncc.com). Our Brochure is also available on our web site [www.fmncc.com](http://www.fmncc.com), also free of charge.

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

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## Item 4 – Advisory Business Introduction

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Financial Management Network, Inc., a California Corporation, is a full-service, comprehensive financial advisory firm working to assist individuals and entities (trusts, estates, partnerships, pension and profit sharing plans and corporations) to achieve their financial goals.

Financial Management Network, Inc. was formed in 1991 by Matthew S. Merwin, CFP®, EA. The principal owners of Financial Management Network, Inc. are the Jeffrey G Merwin Irrevocable Trust, Dated December 29, 2021 and the Matthew M. Merwin Irrevocable Trust Dated December 28, 2021.

Item 1 D Financial Management Network, Inc. provides its clients (i.e., individuals, business entities, pension and profit sharing plans, estates, partnerships and trusts) with financial planning and related consulting services, business consulting, Tax Preparation, and discretionary (primarily) and nondiscretionary investment management services.

As of September 30, 2022, Financial Management Network, Inc. had a total of \$ \$986,636,297 in discretionary assets under management and \$340,198,874 in non-discretionary assets under management.

### Managed Accounts

#### Client Responsibilities

Clients must provide FMN with all information required or appropriate to procure services from FMN. This includes information regarding the Client's financial situation and investment objectives. Clients must also notify FMN promptly of any significant change in the information provided or any other significant change in Client's financial circumstances that might affect the services or advice the Client may receive from FMN.

Clients also provide FMN with additional information as FMN may request from time to time to assist in providing services and/or advice. FMN cannot adequately perform its services for Clients unless each Client diligently carries out these responsibilities. Clients authorize FMN to respond to inquiries from, and communicate and share information with, their attorneys, accountants and other professionals to the extent necessary in furtherance of FMN's services. FMN is not required to verify any information obtained from Clients or their professional service providers.

#### Investment Policy

Management of Client accounts will be based on an "Investment Policy" made up of the following three objectives:

1. Acceptable probabilities for achieving a relevant and predetermined rate of return (95% probability will be used);
2. An acceptable policy for funding the plan's objectives; and
3. A time horizon for measuring success (a 5-year time horizon will be used).

There are no assurances that these objectives can be met and past performance is no guarantee that future results will be successful. Clients agree that all historical research data, forecasts, projections, exhibits and other indications (i.e. past performance) referred to by FMN are not to be considered promises, guarantees or indications of future performance.

With the exception of the Model Portfolio Management accounts, all fee-based management accounts are tailored to the individual needs of our Clients. In most cases, FMN has produced a financial plan for the Client and the design of the portfolio is dictated by the direction of the plan.

### **Management**

For certain Clients, FMN will invest the Client's money in various securities as market conditions dictate and in consideration of the Client's investment objectives. Clients authorize FMN to manage money in the Client's account (the "Account") on a discretionary basis (does not require prior consultation with the Client). This discretionary authority will be limited to buying, selling and exchanging securities in the Account.

Each Client may have a separate Account established with one or more of the following brokerages/custodians: FMN Capital Corporation, a Broker-Dealer registered with the U.S. Securities and Exchange Commission (SEC), and a member of the Financial Industry Regulatory Authority (FINRA), Charles Schwab (Schwab), FISERV Trust Company (FISERV), Fidelity Management Trust Company (FTC), TD Ameritrade and/or Fidelity Investment Advisors Group (FIAG ).

### **Model Portfolio Management**

FMN will invest the Client's money in various securities as market conditions dictate, in consideration of the Client's investment objectives and in accordance with certain model portfolio guidelines. Clients authorize FMN to manage money in the Client's account (the "Account") on a discretionary basis (does not require prior consultation with the Client). This discretionary authority will be limited to buying, selling and exchanging securities in the Account.

Each Client will have a separate Account established with FMN Capital Corporation to facilitate management of the Account according to the model portfolio guidelines.

### **FM6 Management**

For certain Clients who are employees of non-profit organizations, according to prior arrangements made with FMN, FMN will invest the Client's money in various securities as market conditions dictate and in consideration of the Client's investment objectives. Clients authorize FMN to manage money in the Client's account (the "Account") on a discretionary basis (does not require prior consultation with the Client). This discretionary authority will be limited to buying, selling and exchanging securities in the Account.

Each Client will have a separate Account established with FMN Capital Corporation to facilitate management of the Account according to the FM6 guidelines.

### **Class F-2 shares of the American Funds**

FMN now offers Clients the option of invest in Class F-2 shares of the American Funds.

## **Client Restrictions**

Clients can impose a restriction on an Account that all transactions must have the Client's prior approval before a trade is placed in the Account.

## **No-load Transactions**

FMN regularly recommends that Clients invest in certain "no-load" Mutual Funds. All Mutual Fund transactions are executed with the knowledge and authorization of the Client. FMN is affiliated with FMN Capital Corporation, a Broker-Dealer registered with the SEC, and a member of FINRA and thus subject to the regulatory jurisdiction of FINRA in regard to the execution of securities transactions. To comply with FINRA requirements, all no-load mutual fund transactions effected by a FMN IAR will be executed through FMN Capital Corporation or in an account established on a fully disclosed basis through Schwab, FISERV, FTC and/or FIAG. A transaction fee is charged by Schwab, FISERV, FTC and FIAG for these no-load fund transactions.

## **Wrap Fee Programs**

Financial Management Network, Inc. does not participate in wrap fee programs.

## **Sub-Adviser**

FMN has added the option for accounts with assets under \$10,000 to be advised by a sub-adviser who offers an automated platform. This platform is more cost effective for smaller accounts. For accounts from \$0-\$200k the fee is 1% and 0.25% is paid to CLS with 0.75% being paid over to FMN. Accounts over 200k are charged 90 bips with CLS still getting .25%

## **Financial Planning and Consulting**

### **Financial Planning**

For certain Clients, FNM will provide one of the following:

1. "Total Financial Planning Package" which will include a written financial plan comprised of advice on assets, indebtedness, present and future income, insurance policies, the Client's desired financial goals and other related data such as:
  - a. cash flow management
  - b. tax planning
  - c. accumulation of wealth
  - d. risk management
  - e. retirement provisions
  - f. estate planning
2. "Target Plan" which will include a written plan or report comprised of advice on one or more of the following areas:
  - a. income tax minimization
  - b. investment/asset repositioning
  - c. retirement security
  - d. life insurance

- e. estate planning
- f. disability insurance
- g. educational funding
- h. other risk management
- i. other specified area requested by Client

## **Consulting**

Certain Clients wish to consult with FMN for the purposes of acquiring information concerning assets, indebtedness, present and future income, insurance policies, desired financial goals and other related data. As a result, FMN may provide a written financial plan and/or analysis and recommendations in one or each of the following areas:

- a. cash flow management
- b. tax planning
- c. accumulation of wealth
- d. risk management
- e. retirement provisions
- f. estate planning

Recommendations will be made based upon the goals and objectives provided by the Client.

FMN will provide to the Client, on a quarterly basis, a newsletter and consolidated statement of the assets purchased as a result of the aforementioned recommendations.

## **Hourly Consulting**

Financial Management Network, Inc. offers advice on specific financial concerns at an hourly rate.

## **Implementing Recommendations**

FMN may recommend that the Client purchase and/or sell investments and enter into other financial transactions. The Client is free to accept or reject any and all recommendations and to select his/her own agents and brokers for the implementation of any recommendations. Should the Client choose to implement the recommendations with an FMN Investment Adviser Representative ("IAR"), it is important for the Client to understand that the IAR will use the brokerage services of FMN Capital Corporation, an affiliated Broker-Dealer registered with the U.S. Securities and Exchange Commission (SEC), and a member of the Financial Industry Regulatory Authority (FINRA). FMN Capital Corporation will receive brokerage commissions and transaction fees for effecting the applicable transactions. In addition, a conflict of interest may exist because an IAR who is also a Representative of FMN Capital Corporation may, in addition to receiving a portion of the financial planning fees, also receive brokerage commissions as a consequence of acting as broker of such transactions. The amount of compensation received will be disclosed in the offering circular or other document describing such securities transaction.

## **Consulting: Quicken® and Quickbooks®**

### **Quicken® Consulting**

FMN consults with certain Clients for the purpose of assisting the Client with cash flow management by using Quicken®. A FMN representative will provide the following services: (i) two meetings at Client's



home, (ii) monthly email tips/tricks for use in Quicken®, (iii) follow up with client one month into the program, and (iv) follow up six months after utilizing the program and review of budget.

### **Quicken® Bookkeeping Consulting**

FMN consults with certain Clients for the purpose of assisting Client with cash flow management by using Quicken® and providing the following services: (i) install and register Quicken on FMN's systems, (ii) set up bank & credit card accounts, (iii) input budget, (iv) process Client's monthly bills, and (v) set up bill pay.

### **Quickbooks® Bookkeeping Consulting**

FMN consults with certain Clients for the purpose of assisting with the preparation and analysis of Clients' financial statements by using Quickbooks® and providing the following services: (i) install Quickbooks® on FMN's systems, (ii) link bank & credit card accounts to Quickbooks and/or receive duplicate statements, (iii) itemize business expenses and income, and (iv) create and manage financial statements.

### **Income Tax Preparation**

FMN consults with certain Clients (individuals, partnerships, trusts, estates and corporations) for the purpose of assisting with the preparation of income tax returns.

## **Item 5 – Fees and Compensation**

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FMN offers investment advisory services for a percentage of assets under management, hourly charges, quarterly charges and fixed fees. All of the fees below are negotiable based upon certain circumstances. Related accounts can be consolidated for fee purposes.

### **Management**

#### Clients who participated under Management prior to July 1, 2002:

The Client will be charged a start-up fee of two (2) times the management fee based on the total equity in all managed accounts Client has with FMN for this first year and any custodial fees (if applicable). After the first year, the following annual fee will be charged: Minimum annual fee of \$1,000 or (1) \$0 - \$200,000 1.00% annual fee; (2) \$200,001 - \$500,000 .80% annual fee; (3) \$500,001 - \$1,000,000 .70% annual fee; (4) over \$1,000,000 .60% annual fee (whichever is larger).

#### Clients who participate(d) under Management after July 1, 2002:

The Client will be charged a start-up fee of two (2) times the management fee based on the total equity in all managed accounts Client has with Financial Management Network, Inc. for the first year and any custodial fees (if applicable). After the first year, the following annual fee will be charged: The minimum account size shall be \$200,000; (1) \$200,000 - \$500,000 .90% annual fee; (2) \$500,001 - \$1,000,000 .80% annual fee; (3) over \$1,000,000 .70% annual fee; (4) over \$3,000,000 negotiable (whichever is larger).

#### Clients who participate(d) under Management after September 30, 2011 and whose portfolios have a greater degree of complexity:

The Client will be charged a start-up fee of two (2) times the management fee based on the total equity in all managed accounts Client has with Financial Management Network, Inc. for the first year and any custodial fees (if applicable). After the first year, the following annual fee range of .60% to 1.25% will be charged. Portfolios over \$3,000,000 are negotiable.

One-fourth of the annual fee will be charged quarterly. Quarters end on the last day of March, June, September and December. Billing for a quarter's management will occur at the end of the quarter. The equity used in the calculation will be the average daily balance. The fees for the first quarter under management will be pro-rated. There is no refund of any portion of the management fee to the client.

## **Model Portfolio Management**

FMN charges management fees for those Clients who participate under Model Portfolio Management. The Client will be charged 1.25% annually (minimum of \$156.25 per quarter) and may incur transaction fees. There is no refund of any portion of the management fee to the Client. The minimum account size shall be \$50,000.

## **FM6 Management**

FMN charges management fees for those Clients who participate under FM6 Management. The account will be charged .50% on the total equity in all managed accounts Client has under the FM6 program. One-half of the annual fees will be charged semi-annually. Billing periods end on the last day of June and December. Billing for a period's management will occur after the end of the period. The fees for the first period under management will be pro-rated. The fee will be one-half the annual fee multiplied by the account's equity for the period. The equity used in the calculation will be the total equity at the end of the preceding period plus any withdrawals during the period. There is no refund of any portion of the management fee to the Client. The minimum account size shall be \$100,000.

## **Class F-2 shares of the American Funds**

Clients who invest in Class F-2 shares of the American Funds will be charged .50%. American Funds Service Company (AFS) shall deduct fees proportionally from Client accounts unless otherwise instructed by the firm. Fees shall be calculated by AFS for each quarterly period ending the last business day of February, May, August and November and shall be the product of (i) the average daily net asset value of Client assets invested in shares of the Funds through the Program during the quarter; (ii) the number of days in the quarter; and (iii) the rate agreed to by the parties divided by the number of days in the year. The fees shall be paid within thirty (30) days following the end of the quarter for which such fees are payable.

## **Sub-Adviser**

The total client fee for sub-adviser management services is 1%. The sub-adviser will trade the account, do the reporting, billing, etc. and will charge 0.25%, this fee is not in addition to the 1% client fee. FMN will not charge a fee for the introduction to the sub-adviser.

## **Financial Planning**

FMN has a fee range of \$500 to \$25,000 for the plan report. The lesser of 50% of the fee or \$1200 is due upfront and the balance due upon delivery of the plan. FMN refunds any part of said fee to an unsatisfied Client within five (5) business days of receipt of payment.

## **Quarterly Consulting**

FMN has a fee range of \$500 to \$25,000 for the plan report. The lesser of 50% of the fee or \$500 is due upfront and the balance is due upon delivery of the plan. FMN refunds any part of said fee to an unsatisfied Client within five (5) business days of receipt of payment. In addition to the fee for the report, FMN will charge a consulting fee which ranges from \$500 to \$25,000 annually, billed to the Client on a quarterly basis, which covers an agreeable period of consulting. Quarterly fees are due on the first day following each quarter end during the consulting period. Quarters begin on the first day of January, April, July and October. There is no refund of any portion of the quarterly consulting fee to the Client.

## **Hourly Consulting**

FMN offers advice on specific financial concerns at a cost of \$300 per hour. The Client will be billed after the services have been rendered and fees are payable upon receipt of invoice. There are no refunds available for this service to the Client.

## **Quicken® Consulting**

FMN has a fee range of \$300 to \$500 for this service. The lesser of 50% of the fee or \$500 is due upfront and the balance at the end of the service. The Client will be invoiced after the services have been rendered and is payable upon receipt. There are no refunds available for this service.

## **Quicken® Bookkeeping Consulting**

FMN has a fee range of \$500 to \$3,500 per month for this service. The Client will be billed on a monthly basis beginning the month after the Client signs the agreement. There are no refunds available for this service.

## **QuickBooks® Bookkeeping Consulting**

FMN has a fee range of \$125 to \$500 per month for this service. The Client will be billed on a monthly basis beginning the month after the Client signs the agreement. There are no refunds available for these services.

## **Income Tax Preparation**

FMN's fees for this service vary depending on the complexity of the returns and forms required to be filed. A fee range will be quoted to the Client before the services are rendered. FMN will bill the Client upon completion of the services. There are no refunds available for this service and said services may be terminated at any time. A Representative of FMN will receive a portion of said fee.

## **Billing Methods**

FMN deducts fees from Clients' accounts or bills Clients for fees incurred. The client can select either method of payment to FMN for services rendered. In either case, the Client receives a copy of the invoice at the end of the period which indicates the method of payment (deduction from the account or direct pay). For those Clients whose fees are deducted from their accounts, FMN will request said fees from the custodians three business days after the reports have been sent to the Client.

Management fees are billed or deducted from Clients' accounts after the quarter end (in arrears). The billing period does not exceed three months, so Clients are generally billed four times a year. All fees are

considered fully earned until a written termination notice is received per the terms of the client agreement.

Fees for financial planning and other services are billed separately.

## **Custodial Fees**

FMN Capital Corporation ("FMNCC"), our affiliated broker-dealer, sets the markups charged by the Custodian, NFS, in connection with advisory accounts held at NFS. FMN Capital Corporation, therefore, determines the fee that the Custodian charges the clients and receives that markup as additional compensation from the Custodian. All advisory accounts held at NFS will pay the marked-up fees set by the broker dealer.

FMN Capital Corporation ("FMNCC") and Financial Management Network Inc. ("FMN") are under common ownership. Therefore, the owners of these two entities will receive fees from both the advisory fees and the markups they charge to advisory Clients on the broker dealer side. The broker dealer also receives a portion of the commission paid to registered representatives for all product sales through the broker-dealer. It is, therefore, a conflict of interest since the owners of both firms have a monetary incentive to sell both advisory services and broker dealer services. FMN has a fiduciary obligation to inform Clients of this conflict and must supervise Client accounts to make certain the recommendations and transactions are in the Clients' best interests.

## **Other Charges**

Clients will incur brokerage and other transaction fees in addition to FMN's fees. Custodian fees and/or mutual fund expenses are not included in FMN's fees.

### Other fees and/or expenses that may be charged to Client accounts:

- FMN utilizes independent, third-party custodians for safeguarding Clients' investments and for recordkeeping. The custodians typically charge a nominal annual fee associated with these services. The fee is paid by the Client to the custodian.
- Some mutual funds have instituted redemption fees, also referred to as "market timing fees", or "short-term trading fees." They are in place to discourage short-term trading, for example buying a fund and then selling it within 90 days, and are unlikely to apply to FMN strategies. Custodians also charge transaction fees for their services in buying and selling securities. The transaction fees, including a fee levied by the Securities and Exchange Commission and collected by the custodian, are nominal, flat fees, fully disclosed on trade confirmations. These fees are paid by the Client.
- Mutual funds charge fees for their management and other services, known as the "expense ratio." The expense ratio will vary by investment and is fully disclosed in each fund's prospectus and related reports.

Investment Advisory Representatives may receive commissions for sales of securities or other investment products placed through FMN Capital Corporation as a Registered Representative including distribution or services ("trail") fees from the sale of mutual funds (also known as "12b-1 fees") and/or variable annuities. Due to the fact that FMN Capital Corporation is paid these trails and/or 12b-1 fees, the

potential for an incentive to recommend investment products based on the compensation received, rather than on the client's needs is created. Although this incentive may exist, the Supervision Staff of Financial Management Network, Inc. and FMN Capital Corporation monitor all transactions initiated by Investment Advisory Representatives to ensure that if any conflicts of interest exist they are disclosed and that said transactions are appropriate for the Client. This conflict of interest is disclosed in this Brochure and in the advisory agreement the Client signs. FMN is required to always put the Client's interests first when making recommendations.

Clients are under no obligation to purchase or sell investments through FMN Capital Corporation as broker-dealer.

FMN does not normally reduce advisory fees to offset the commissions or markups applicable to certain transactions (or commissions to offset fees).

See also "Brokerage Practices" in this Brochure.

## **Item 6 – Performance Based Fee and Side by Side Management**

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

## **Item 7 – Types of Client(s)**

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### **Types of Clients**

FMN generally provides investment advice to individuals, high net-worth individuals, trusts, corporate pension and profit-sharing plans.

### **Minimum Account Size**

For certain accounts opened by FMN, a minimum account balance is required:

#### **Management**

For accounts opened after July 1, 2002, a minimum account size of \$200,000 is required.

#### **Model Portfolio Management**

A minimum account size of \$50,000 is required.

#### **FM6 Management**

A minimum account size of \$100,000 is required.

There are no minimum account size requirements on remaining services.

### **Minimum Annual Fee**

Management accounts opened prior to July 1, 2002, are subject to a minimum annual fee of \$1,000.

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

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FMN utilizes several methods of analysis to develop and implement an asset allocation strategy for clients. Through the financial planning process and client interviews, FMN can customize allocations to meet the specific needs of the client. We believe that keeping fees reasonable and transactions to a minimum will benefit the client long term. Thus, our strategies typically involve rebalancing annually as needed and adjusting our assets only when replacement of a fund or investment is warranted as described below. FMN is careful to communicate to each client that investing in securities involves risk of loss that clients should be prepared to bear. FMN utilizes the following strategies to mitigate that risk and help meet the financial goals of our clients through proper investment management.

**Strategic Asset Allocation:** Strategic asset allocation reflects a logical, static, strategic asset allocation for a hypothetical long-term investor who is not using active asset allocation. It is based on our evaluation of the historical long-term risk and return relationships of the asset classes, and what we consider to be realistic and reasonable expectations going forward. First, we identify risk tolerances defined as maximum losses over 3 to 5 year periods. Then we look at many different combinations of asset classes over many historical periods. Through numerous iterations of adjusting the asset class mix, and looking at the results over various historical periods that reflected differing circumstances, we come up with strategic core allocations that:

- Have very high statistical probabilities of not violating the stated risk tolerance for each model. *Though the probabilities are in the high 90% range, they are not 100%. There is no guarantee that the risk tolerance will not be violated going forward.*
- Are diversified enough to provide some smoothing of performance.
- Have delivered, over the average 5 to 10-year periods, a higher return than a simple S&P 500/bond mix with slightly less variability. *In the case of equity portfolios, a higher return with less variation than the S&P 500.*
- Make common sense to us as we look forward.

**Active Management:** Financial markets are quite efficient—most assets are priced fairly (based on all publicly available information) most of the time. This means that most of the time it is difficult to "out-smart" the market. However, the market does, occasionally, offer investors exceptional opportunities. Capturing a portion of the return from these opportunities, and locking them in for a full market cycle, can result in market-beating performance over a cycle. Our active asset allocation process (decisions to invest differently from the core strategic allocation), emphasizes investing for a shorter time period in undervalued asset classes, or asset classes poised for the highest growth. This is primarily accomplished in the "Specialty" asset class of portfolios and typically represents 5% to 25% of a portfolio with holding periods typically between 3 months and 2 years. Financial Management Network, Inc. identifies assets for active management by applying a consistent approach to identifying undervalued assets. This is part of our discipline. Our research suggests two important factors:

- An extreme undervaluation (or overvaluation) relative to alternative/comparable asset classes. In measuring this undervaluation, we first compare equity assets to the S&P 500 and then peer groups.
- The stage of the "market cycle" or overall economy can enhance or detract from the valuation argument.

**Fund Selection and Implementation:** After we have determined which asset classes offer value, we then turn to fund and individual asset selection. Choosing the right investments is important. FMN primarily invests in mutual funds, and exchange traded funds given the transparency and access to research. On occasion, we will invest in individual stocks, bonds, and alternative investments such as hedge funds or limited partnerships if we feel all our due diligence can be satisfied and it meets the client's allocation needs. Even within a single asset class, performance can vary widely. Occasionally a fund choice alters our asset allocation strategy. If we have a very high degree of confidence in a particular fund manager, we may allocate slightly more to that manager's asset class. On the other hand, if there are no attractive funds in an attractive asset class, we may allocate less than we ideally would. Additionally, a fund that is chosen to represent a specific asset class may not invest all of its assets there. While some asset allocation approaches would call for the sale of a fund that strayed from the style for which it was chosen, we are comfortable giving talented managers some room to move. The following are criteria FMN uses to identify skilled mutual fund managers:

- Performance: Our first level of fund analysis focuses on the manager's performance. We are looking for long, consistent records of outperformance relative to peers. We like to have at least a five-year record and are careful only to compare similar funds. (Returns for various style categories can differ widely, making it erroneous to draw conclusions about manager skill from comparisons of funds in different style categories.) However, as we all know, past performance is no guarantee of future returns. That's why we spend a great deal of time trying to understand managers' investment philosophies, getting to know the dynamics of the portfolio management team, and determining how successful managers have added value. We also assess managers' personal characteristics against those that our many years of experience have shown us contribute to investment success. Fund selection (like asset allocation) is a combination of art and science. Performance is a screening mechanism, but there's more to picking funds than hot records. A number of factors influence the number of funds and the size of positions. For example, our allocations are affected by how many funds in which we have a high degree of confidence are available in a given asset class. Occasionally new funds come along that look very promising, but we already own good funds in the same asset class. In this case, rather than recommending selling all of the existing fund, we may advocate taking a small position in the new fund. If we don't have a high degree of confidence in a single manager in a specific asset class, we may use smaller positions in two funds or we may use an index fund.
- Expenses: FMN is sensitive to the expenses of a fund and is looking for reasonable expenses. We define reasonable based on the average expenses in the fund's category and whether the expenses are justified based on the strategy the manager is utilizing.

- **Turnover:** FMN is sensitive to the tax efficiency or inefficiency of a particular fund. We may use specific funds only in qualified plans based on the turnover rate.

When we buy a fund, we have no predetermined holding period. How long we maintain our position depends on how the asset class performs relative to its fundamentals and to other asset classes, and the continued validity of the fundamental reason for the allocation. We sell funds: to adjust asset allocations, if we lose confidence in a manager, if we think there is a better alternative, if the management team has changed detrimentally, if the style has shifted outside the original asset class.

Funds we recommend as alternatives should provide similar, but not identical results. Alternatives are suitable for clients who:

- Can't meet the minimums for our first choice
- Already have positions in the alternative funds and don't want to sell for tax reasons, and/or
- Can't get into funds that are closed.

**Comprehensive Financial Plan:** Through the financial planning process, FMN understands the unique needs of the client. FMN can then customize an allocation in that targets specific goals such as; mitigating taxes, financial independence, and generating income. The comprehensive financial plan gives FMN the proper knowledge of the client's needs and forum to communicate all the available strategies. If a comprehensive financial plan is not done, FMN is careful to interview each client to assess risk tolerance, expectations for return, liquidity needs, and other qualitative information to better customize a suitable allocation. It's through these processes that FMN communicates the inherent risks associated with investing.

**Principle Risks:** This section describes the principal risks associated with FMN's principal investment strategies. You may lose money by investing with FMN. The likelihood of loss may be greater if you invest for a shorter period of time. Investors should have a long-term perspective and be able to tolerate potentially sharp declines in value.

*Market conditions* — The prices of, and the income generated by, the mutual funds, exchange traded funds, and common stocks and other securities held in the allocation may decline due to market conditions and other factors, including those directly involving the issuers of securities held by the underlying funds.

*Investing in growth-oriented stocks* — Growth-oriented stocks may involve larger price swings and greater potential for loss than other types of investments.

*Investing outside the United States* — Securities of issuers domiciled outside the United States, or with significant operations outside the United States, may lose value because of political, social or economic developments in the country or region in which the issuer operates. These securities may also lose value due to changes in the exchange rate of the country's currency against the U.S. dollar. Securities markets in certain countries may be more volatile and/or less liquid than those in the United States. Investments outside the United States may also be subject to different settlement and accounting practices and different regulatory, legal and reporting standards than



those in the United States. These risks may be heightened in connection with investments in developing countries.

*Investing in developing countries* — Investing in countries with developing economies and/or markets may involve risks in addition to and greater than those generally associated with investing in developed countries. For instance, developing countries may have less developed legal and accounting systems than those in developed countries. The governments of these countries may be more unstable and more likely to impose capital controls, nationalize a company or industry, place restrictions on foreign ownership and on withdrawing sale proceeds of securities from the country, and/or impose punitive taxes that could adversely affect the prices of securities. In addition, the economies of these countries may be dependent on relatively few industries that are more susceptible to local and global changes. Securities markets in these countries can also be relatively small and have substantially lower trading volumes. As a result, securities issued in these countries may be more volatile and less liquid than securities issued in countries with more developed economies and/or markets. Because these markets may not be as mature, there may be increased settlement risks for transactions in local securities.

*Investing in small companies* — Investing in smaller companies may pose additional risks. For example, it is often more difficult to value or dispose of small company stocks and more difficult to obtain information about smaller companies. In addition, the prices of these stocks may be more volatile than stocks of larger, more established companies.

*Investing in bonds* — Rising interest rates will generally cause the prices of bonds and other debt securities to fall. Longer maturity debt securities may be subject to greater price fluctuations than shorter maturity debt securities. Bonds and other debt securities are subject to credit risk, which is the possibility that the credit strength of an issuer will weaken and/or an issuer of a debt security will fail to make timely payments of principal or interest and the security will go into default.

*Investing in securities backed by the U.S. government* — Securities backed by the U.S. Treasury or the full faith and credit of the U.S. government are guaranteed only as to the timely payment of interest and principal when held to maturity. Accordingly, the current market values for these securities will fluctuate with changes in interest rates. FMN utilizes funds that may also invest in debt securities and mortgage-backed securities issued by federal agencies and instrumentalities that are not backed by the full faith and credit of the U.S. government. These securities are neither issued nor guaranteed by the U.S. government.

*Investing in municipal bonds of issuers within the state of California* — Because Financial Management Network, Inc. invests in funds purchasing securities of issuers within the state of California, these funds are more susceptible to factors adversely affecting issuers of California securities than a comparable municipal bond mutual fund that does not concentrate its investments in a single state. For example, in the past, California voters have passed amendments to the state's constitution and other measures that limit the taxing and spending authority of California governmental entities, and future voter initiatives may adversely affect California

municipal bonds. More detailed information about the risks of investing in California municipal securities is contained in each fund's prospectus.

*Management* — The investment advisers to the mutual funds are actively managing each fund's investments. Consequently, the allocation is subject to the risk that the methods and analyses employed by the investment adviser in this process may not produce the desired results. This could cause the fund to lose value or its results to lag relevant benchmarks or other funds with similar objectives. Your investment in equities is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation.

## **Item 9 – Disciplinary Information**

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Registered Investment Advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of FMN or the integrity of FMN's management. FMN has no information applicable to this item.

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

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FMN is actively engaged in business other than giving investment advice. Said business includes tax preparation provided only by Representatives of FMN who hold the designation of Enrolled Agent (EA). FMN is a corporation and its Representatives who are EAs also provide other services offered by FMN. Therefore, it is difficult to give an appropriate estimate of time spent on this area. Said individuals work on this business activity primarily between January and April of each year. In addition, FMN and its related persons sell products or services other than giving investment advice to clients. These products include fixed life, disability and medical insurance (both individual and group), and Fire and Casualty. FMN is a corporation which has a division that primarily works with life and disability insurance. Therefore, it is difficult to give an appropriate estimate of time spent on this area. Said individuals work on this division's business full time.

Some Representatives of FMN are also Registered Representatives of FMN Capital Corporation an affiliated Broker-Dealer. Some Representatives of FMN are also associated directly with various insurance companies as either agents or general agents. FMN maintains a list of the insurance companies and their respective agents. Representatives of the Broker-Dealer and agents (or general agents) of the insurance companies may receive an economic benefit (i.e. transaction-based compensation, commission, etc.) for production efforts. This creates a conflict of interest because Representatives may have an incentive to recommend these products to FMN's clients. FMN takes its fiduciary duty very seriously. All Representatives are required to make recommendations that are in the best interest of the clients.

As discussed above, Firm Clients will pay certain fees (such as transaction fees and service fees, among others) to FMN Capital Corporation (the broker-dealer) if the Client or Advisor uses its services. Those fees are marked up and higher than such if that Client had used the services of another broker-dealer (or went

directly to a broker-dealer or Custodian). See the Item 12: “Brokerage Practices” for more details. However, the fact that FMN Capital Corporation charges markups on these accounts creates a conflict of interest because those markups constitute additional revenue to an affiliate of Financial Management Network Inc. (“FMN.”) The owners of both firms receive the compensation for fees and markups.

FMN has a referral arrangement with Spectrum Asset Management. Please see Item 14 for details.

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

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### **General Information**

FMN has adopted a Code of Ethics (“Code”) for all supervised persons of the firm describing its high standards of business conduct, and fiduciary duty to you, our client. It is FMN's policy to protect the interest of each of its clients and to place the client's interest first. FMN's fiduciary responsibilities include the duty of care, loyalty, honesty and good faith. All of our supervised persons must acknowledge the terms of the Code at least annually. Clients and prospective clients may request a copy of the Code by contacting Jeffrey Merwin.

### **Participation or Interest in Client Accounts**

FMN anticipates that, in appropriate circumstances, consistent with clients’ investment objectives, it will cause accounts over which FMN has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which FMN, its affiliates and/or clients, directly or indirectly, have a position of interest.

### **Personal Trading**

FMN’s supervised persons must maintain brokerage accounts only with those broker-dealers who provide transaction information to FMN. Subject to satisfying the Code and all applicable laws, FMN’s officers, directors, employees and affiliates may trade for their own accounts in securities which are recommended to and/or purchased for FMN’s clients. The Code is designed to ensure that the personal securities transactions, activities and interests of FMN’s supervised persons will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to trade in their own accounts. Under the Code, certain classes of securities have been designated as exempt transactions, based upon a determination that they would not interfere with the best interest of FMN’s clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code permits employees in certain circumstances to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by clients in a security also held by an employee account. Therefore, employee trading is continually monitored under the Code to mitigate conflicts of interest between FMN and its clients.

## Privacy Statement

FMN is committed to safeguarding clients' confidential information and holds all personal information in the strictest confidence. These records include all personal information that FMN collects from clients or receives from other firms in connection with any of the financial services they provide. FMN also requires other firms with whom it conducts business to restrict the use of client information. FMN's Privacy Policy is available upon request.

## Item 12 – Brokerage Practices

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### Factors Used to Select Custodian

In recommending a custodian, FMN looks for a company that will hold your assets and execute transactions on terms that are overall advantageous when compared to other available custodians and the services they provide. The following are some of the factors, FMN used when selecting a custodian:

- Timeliness of execution
- Timeliness and accuracy of trade confirmations
- Research services provided
- Execution facilitation services provided
- Record keeping services provided
- Custody services provided
- Financial condition
- Business reputation
- Quality of services

With this in consideration, FMN has arrangements with several custodians: TD Ameritrade, NFS, Schwab and Fidelity Institutional.

### Soft Dollars

FMN does not receive any soft dollars from broker-dealers, custodians or third party money managers. FMN does not use client brokerage commissions to obtain research or other products and services.

### Best Execution

FMN has an obligation to seek best execution for its clients. In seeking best execution, the determinative factor is not the lowest possible commission cost but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, reputation and responsiveness. Therefore, we will seek competitive commission rates, but we may not obtain the lowest possible commission rates for account transactions.

Should the Client choose to implement the financial planning recommendations with an FMN Investment Adviser Representative ("IAR"), it is important for the Client to understand that the IAR will use the brokerage services of FMN Capital Corporation, an affiliated Broker-Dealer registered with the U.S. Securities and Exchange Commission (SEC), and a member of the Financial Industry Regulatory Authority (FINRA). FMN Capital Corporation will receive brokerage commissions and transaction fees for effecting

the applicable transactions. In addition, a conflict of interest may exist because an IAR who is also a Representative of FMN Capital Corporation may, in addition to receiving a portion of the financial planning fees, also receive brokerage commissions as a consequence of acting as broker of such transactions. The amount of compensation received will be disclosed in the offering circular or other document describing such securities transaction.

## **Brokerage for Client Referrals**

We do not receive any compensation or incentive for referring you to broker-dealers for brokerage trades.

## **Directed Brokerage**

Clients may direct brokerage to a specific broker-dealer or FMN may make recommendations. Generally, these recommendations are based on FMN's analysis of the breadth of services offered and the quality of execution. When clients direct brokerage, FMN may be unable to achieve the most favorable execution of client transactions. Clients may pay higher brokerage commissions or receive less favorable prices.

Not all advisory firms require clients to direct brokerage to a specific broker-dealer. By directing brokerage to FMN Capital Corporation, FMN may be unable to achieve the most favorable execution of client transactions available.

## **Trading**

Certain affiliated accounts may trade in the same securities with your accounts on an aggregated basis when consistent with our obligation of best execution. When trades are aggregated, all parties will share the costs in proportion to their investment. We will retain records of the trade order (specifying each participating account) and its allocation. 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.

## **Item 13 – Review of Accounts**

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### **Reviews**

For certain Clients who contract with FMN to produce a written financial plan and for quarterly consulting, FMN will annually review said Clients' position and update balance sheet, cash flow, tax projections, and make recommendations for the coming year upon request. FMN calls these reviews "APRs" (Annual Plan Reviews). An offer is sent to the client each year, however, usually the review is done on a bi-annual basis (due to the fact that in many cases the clients' financial situation has not changed in a year). These reviews are typically handled by an Investment Advisory Representative of Financial Management Network, Inc. Investment Advisory Representatives review the accounts for their own Clients.

For Clients who have received investment recommendations where sole compensation is derived from commissions on securities transactions by the Representative as a Registered Representative of FMN Capital Corporation, FMN will update said recommendations upon request. These reviews are handled by a Representative of FMN. Representatives review the accounts for their own Clients.

For clients who contract with FMN for management services, FMN reviews said Clients' position and runs internal rates of return and comparisons to alternative investments at least annually (more frequently if market conditions so dictate). These reviews are handled by the IA Principal, the Money Management Operations Manager and a Representative of FMN (the IA Principal and Money Management Operations Manager reviews each account, the Representative will meet with their own clients with regularity).

As stated above, FMN will review our clients' Money Management accounts more frequently than annually if market conditions so dictate. Said market conditions could be severe price fluctuations in the market, legislative changes, fund management changes and fund policy changes.

Reviews will be conducted at least annually or as agreed to by us. Reviews will be conducted by the Chief Compliance Officer. You may request more frequent reviews and may set thresholds for triggering events that would cause a review to take place. Generally, we will monitor for changes and shifts in the economy, changes to the management and structure of an equity or company in which client assets are invested, and market shifts and corrections.

## **Reports**

We do not provide any other statements except the one provided by your custodian, along with an invoice copy.

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

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FMN has entered into a referral agreement with a structured settlement company, whereby, FMN will pay an ongoing referral fee of 15% to them for any clients referred to FMN. This relationship will be disclosed to the client prior to entering into a relationship with them.

FMN may enter into solicitation agreements pursuant to which it compensates third-party intermediaries for client referrals that result in the provision of investment advisory services by FMN. FMN will disclose these solicitation arrangements to affected investors, and any cash solicitation agreements will comply with Rule 206(4)-3 under the Advisers Act. Solicitors introducing clients to FMN may receive compensation from FMN, such as a retainer, a flat fee per referral and/or a percentage of introduced capital. Such compensation will be paid pursuant to a written agreement with the solicitor and generally may be terminated by either party from time to time. The cost of any such fees will be borne entirely by FMN and not by any affected client."

FMN or related person as broker or agent effects securities transactions for compensation for any Client. If the Client enters into one or more transactions recommended by a Representative of FMN, a conflict of interest exists because the individual effecting the transaction will receive a brokerage commission as a consequence of their acting as agent of such investment transaction directly from FMN Corporation, a Broker-Dealer. The amount of compensation received will be disclosed in the offering circular or other document describing such investment or transaction.

FMNCC, our affiliated broker-dealer, also participates in revenue sharing with its custodian relating to fees charged by the custodian. These fees are only paid under certain circumstances and all or a portion of the revenue sharing may be distributed to the client. This is a conflict of interest for the Firm as FMN has an incentive to use their affiliated broker-dealer to refer business to a particular custodian based on an increase in revenue for the owners of the firm rather than which custodian is best for the clients, This is mitigated through evaluating that the client is still receiving best execution for their investment advisory accounts despite the broker-dealer receiving revenue sharing from the custodian.

## **Item 15 – Custody**

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According to the Investment Advisors Act Rule 206(4)-2 FMN is deemed not to have custody of certain client securities because FMN deducts fees from client assets. Client assets and securities are held at independent, qualified custodians.

Clients should receive at least quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains the client's investment assets. FMN also sends statements to money management clients on a quarterly basis. FMN urges clients to carefully review official custodial records and compare the account statements with those sent by FMN.

## **Item 16 – Investment Discretion**

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FMN 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. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, FMN observes the investment policies, limitations and restrictions of the clients for which it advises.

Investment guidelines and restrictions must be provided to FMN in writing.

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

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As a matter of firm policy and practice, we do not have any authority to and do not vote proxies on behalf of advisory clients. You retain the responsibility for receiving and voting proxies for any and all securities maintained in your portfolios. We may provide advice to you regarding your voting of proxies. The custodian will forward you copies of all proxies and shareholder communications relating to your account assets.

## Item 18 – Financial Information

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We are required to provide you with certain financial information or disclosures about our financial condition. We have no financial commitment that would impair our ability to meet any contractual and fiduciary commitments to you, our client.

On April 28th, 2020, Financial Management Network Inc. received a Paycheck Protection Plan Loan (“PPP”) through the U.S. Small Business Administration (“SBA”) in conjunction with the relief afforded from the CARES Act. The firm used the PPP monies to continue payroll for the firm’s employees and the firm did not suffer any interruption of service.

The firm implemented our business continuity plan to address the COVID pandemic. None of our services to our clients were adversely affected by the pandemic.

We have not been the subject of any bankruptcy proceedings.

In no event shall we charge advisory fees that are both in excess of twelve hundred dollars and more than six months in advance of advisory services rendered.