

# Stonehearth Capital Management

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## FORM ADV PART 2A BROCHURE

**This brochure provides information about the qualifications and business practices of Stonehearth Capital Management. If you have any questions about the contents of this brochure, please contact us at (978) 624-3000 or [Jamie@stonehearthcapital.com](mailto:Jamie@stonehearthcapital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Stonehearth Capital Management is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Our Firm IARD/CRD number is 128866.**

**Any references to Stonehearth Capital Management as a registered investment adviser or its related persons as registered advisory representatives does not imply a certain level of skill or training.**

## Item 2 Material Changes

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

The Advisor has made the following material changes to our Brochure since our last annual updating amendment dated February 25, 2021:

- The Advisor has added medicare planning and equity compensation planning (stock options plans) to its Financial Planning Services. Please see the *Advisory Business* section for additional information on these services.
- The Advisor no longer participates in TD Ameritrade AdvisorDirect to receive client referrals from TD Ameritrade.
- The Advisor has entered into agreements with certain referral networks to receive client referrals. The referral networks provide a means for referring individuals and other investors seeking fiduciary personal investment management services or financial planning service to independent investment advisors. Please see the *Client Referrals and Other Compensation* section for additional information on the referrals networks.
- Under the *Advisory Business* section, the Advisor included the below disclosure related to the DOL's fiduciary rule PTE 2020-02:

### IRA Rollover Recommendations

Effective December 20, 2021 (or such later date as the US Department of Labor ("DOL") Field Assistance Bulletin 2018-02 ceases to be in effect), for purposes of complying with the DOL's Prohibited Transaction Exemption 2020-02 ("PTE 2020-02") where applicable, Stonehearth is providing the following acknowledgment to you. When Stonehearth provides investment advice to you regarding your retirement plan account or individual retirement account, Stonehearth is a fiduciary within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way Stonehearth makes money creates some conflicts with your interests, so Stonehearth operates under a special rule that requires us to act in your best interest and not put our interest ahead of yours. Under this special rule's provisions, Stonehearth must:

- Meet a professional standard of care when making investment recommendations (give prudent advice);
- Never put our financial interests ahead of yours when making recommendations (give loyal advice);
- Avoid misleading statements about conflicts of interest, fees and investments;
- Follow policies and procedures designed to ensure that we give advice that is in your best interest;
- Charge no more than is reasonable for our services; and
- Give you basic information about conflicts of interest.

Stonehearth benefits financially from the rollover of your assets from a retirement account to an account that Stonehearth manages or provides investment advice, because the assets increase Stonehearth's assets under management and, in turn, Stonehearth's advisory fees. As a fiduciary, Stonehearth only recommends a rollover when we believe it is in your best interest.

Questions regarding the brochure and/or the information contained herein may be directed to the firm and its representatives.

Additional information about Stonehearth Capital Management ("SCM"/"Advisor") is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The IARD number for SCM is 128866. The SEC's web site also provides information about any persons affiliated with SCM who are registered, or are required to be registered, as Advisory Representatives of SCM.

### Item 3 Table Of Contents

Item 1 Cover Page	Page 1
Item 2 Material Changes	Page 2
Item 3 Table Of Contents	Page 4
Item 4 Advisory Business	Page 5
Item 5 Fees and Compensation	Page 10
Item 6 Performance-Based Fees and Side-By-Side Management	Page 13
Item 7 Types of Clients	Page 13
Item 8 Methods of Analysis, Investment Strategies and Risk of Loss	Page 13
Item 9 Disciplinary Information	Page 16
Item 10 Other Financial Industry Activities and Affiliations	Page 16
Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	Page 16
Item 12 Brokerage Practices	Page 17
Item 13 Review of Accounts	Page 20
Item 14 Client Referrals and Other Compensation	Page 20
Item 15 Custody	Page 21
Item 16 Investment Discretion	Page 21
Item 17 Voting Client Securities	Page 21
Item 18 Financial Information	Page 22
Item 19 Requirements for State Registered Advisers	Page 22

## **Item 4 Advisory Business**

Stonehearth Capital Management ("SCM" / "Advisor") is an investment advisory firm offering financial planning, retirement planning, and investment management services customized to the needs of individuals, businesses, and organizations.

In 1995 Prout Financial Services, a Massachusetts-registered investment advisory firm was established. This firm evolved into Wealth Management Group, LLC in 2004 and in 2014, became Stonehearth Capital Management. Due to its growth, the Advisor registered as an Investment Adviser with the Securities and Exchange Commission in May 2007. Jamie A. Upson is the Managing Member and sole owner of the Advisor. Mr. Upson has been in the financial services industry since 1999.

The Advisor tailors its advisory services to the Client's individual needs. The Client may ask the Advisor to restrict and/or limit certain securities or types of securities when the Advisor invests for the Client. To begin the process, the Advisor will ask the Client to complete the Advisor's data-gathering form to assist the Advisor with obtaining information about the Client's financial situation and history. Additionally, the Advisor will meet with the Client and conduct an interview and data gathering session to continue the due diligence process. The Advisor will discuss the Client's desired level of risk, the Client's knowledge of investing, and how the Advisor can best meet the Client's needs. The information the Advisor collects will help the Advisor to provide a program customized to the Client's financial situation.

Depending on the services the Client has requested, the Advisor will gather various financial information and history from the Client such as:

- Retirement and financial goals
- Investment objectives
- Investment horizon
- Financial needs
- Cash flow analysis
- Cost of living needs
- Education needs
- Savings tendencies
- Other applicable financial information required by the Advisor in order to provide the investment advisory services requested.

The Advisor may use the financial planning software, eMoney, to analyze the Client's financial strength.

### **Investment Management Services**

The Advisor offers investment management services under the following programs:

- Wrap Fee Program
- Non-Wrap Fee Program

Clients participating in a wrap fee program pay an all-inclusive fee which encompasses trade execution and portfolio management. In the non-wrap fee program, trade execution costs are in addition to the advisory fee. The amount of assets under management by the Advisor determines the Client's program eligibility (refer to Item 5 for further details).

The Advisor will gather financial information from the Client. Once the Advisor completes their analysis of an Client's situation, the Advisor will work with the Client to determine which strategy would be most suitable for the Client and what level of risk is most comfortable for the Client.

The Advisor offers four different portfolio strategies:

- Diversified Portfolio
- Diversified CarbonLITE Portfolio
- Diversified NTF ETF-Only Portfolio
- U.S. Stock Portfolio

The Advisor will customize the Client's portfolio allocation for each strategy taking into consideration the Client's limitations or restrictions, the market and economy at the time, and the Client's financial situation, goals and objectives.

The Advisor will present the Investment Policy Statement to outline how the Client's account will be managed. It will include the recommended portfolio allocation. Upon the Client's approval, the Advisor will implement the portfolio allocation.

The Advisor will provide continuous and ongoing management of the Client's account on a discretionary basis. The Advisor will manage the Client's account and make changes to the allocation as deemed appropriate by the Advisor. The Advisor will determine the securities to be purchased and sold in the account and will alter the securities holdings from time to time, without prior consultation with the Client. The Advisor may actively trade securities and hold such holdings for periods of 30 days or less or maintain positions for longer or shorter term periods.

Within the Advisor's Diversified Portfolios, the Advisor will primarily use exchange traded funds (ETFs) and open-ended mutual funds (including no-load and load waived). Less frequently, the Advisor may recommend closed-end funds, stocks, limited partnerships, non-publicly traded real estate investment trusts (REITs), and variable annuities. Within the Advisor's U.S. Stock Portfolio, the Advisor will use primarily stocks, however, the Advisor may include ETFs at times.

Transactions in the Client's account, account reallocations and rebalancing may trigger a taxable event, with the exception of retirement accounts (e.g., IRA or Roth).

As previously stated, the Advisor will start the portfolio construction process by determining the strategy and risk profile that best meets the Client's suitability parameters. The Client's managed account may be similarly managed and contain similar holdings as compared to other Clients' managed accounts.

As further described below, the Advisor has entered into a relationship to offer the Client brokerage and custodial services through TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade, Inc., member FINRA/SIPC ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. There is no affiliation between the Advisor and TD Ameritrade.

Additionally, the Client may establish an account with other financial institutions (referred to as "outside accounts") such as mutual fund companies, 529 college savings plan providers, variable annuity companies, retirement plan providers and private and public partnerships. The Advisor will provide investment management services on the Client's assets held at other financial institutions provided the Advisor is listed on the account with limited trading authorization to allow the Advisor to place trades on

the Client's behalf. These accounts held at other financial institutions do not qualify for the Advisor's wrap fee program as described below. Any fees charged at these other financial institutions will be the Client's responsibility.

Accounts held outside of TD Ameritrade (i.e., outside accounts) may not lend themselves to continuous and ongoing management of the assets within the account due to trading restrictions and limitations. In these instances, the Advisor will provide asset allocation and periodic monitoring services. Because of these restrictions, the Advisor tries to utilize products/procedures that do not require rebalancing trades such as: age-based funds, target date funds, asset allocation funds or automatic rebalancing options offered by the outside account custodian.

For those Clients with less than \$100,000 in investable assets, the Advisor typically invests these funds differently. In these situations, the Advisor will invest the Client in an asset allocation fund or in the Diversified NTF ETF-Only Portfolio to keep trading fees low. When the Client's investable assets exceed \$100,000, the Advisor will determine whether or not it makes sense to suggest that the Client switch to one of the other Diversified Portfolios. If/when the Client's investable assets fall below \$80,000 the Advisor may recommend going back to the asset allocation product or the Diversified NTF ETF-Only Portfolio offering. This distinction is in the spirit of reducing trading fees for smaller accounts.

### **Wrap Fee Program**

As mentioned previously, the Advisor offers a wrap fee program. A wrap fee program is a fee-based account for which the Client will pay a single fee for portfolio review, investment management services, and brokerage services.

Wrap Fee Program Qualifications:

- Have \$1,000,000 (cash or securities) or more of assets on which the Advisor or its Advisory Representatives receive any form of compensation, AND
- Maintain an account at TD Ameritrade.

The \$1,000,000 of assets can be comprised of accounts held at TD Ameritrade along with other financial institutions ("outside accounts") such as mutual fund companies, 529 college savings plan providers, variable annuity companies, retirement plans providers and private and public partnerships. These assets must be managed by the Advisor and the Advisor must receive (or have received) some form of compensation to qualify towards the minimum threshold.

Under the wrap fee program, the Client will not pay any ticket charges or account maintenance fees on accounts held in custody with TD Ameritrade. All such fees and expenses will be borne by the Advisor. The Advisor and Advisory Representatives of the Advisor will receive a portion of the wrap fee for providing advisory services.

At the discretion of the Advisor, ticket charges and account maintenance fees on accounts held with TD Ameritrade may be paid for by the Advisor for certain Clients participating in the non-wrap fee program. Further details of the Advisor's wrap fee program can be found in Item 5 - Fees & Compensation.

## Financial Planning Services

Planning services may include advice on tax planning, estate planning, business planning, retirement planning, education planning, medicare planning, equity compensation (stock option plans), budgeting and cash flow, and/or fringe benefit analysis. The Advisor will schedule a meeting with the Client and present the analysis of the Client's situation and provide recommendations to assist the Client towards the Client's financial goals. The Client is not obligated to implement advice through the Advisor or its Advisory Representatives.

Plans are based on the Client's financial situation at that time and are based on the financial information provided by the Client to the Advisor. Certain assumptions may be made with respect to interest and inflation rates and use of past trends and performance of the market and economy. However, past performance is in no way an indication of future performance. The Advisor cannot offer any guarantees or promises that the Client's financial goals and objectives will be met. Further, the Client must continue to review the plan and update the plan based upon changes in the Client's financial situation, goals, or objectives or changes in the economy. Should the Client's financial situation or investment goals or objectives change, the Client must notify the Advisor promptly of the changes. The advice offered by the Advisor may be limited and is not meant to be comprehensive. Therefore, the Client may need to seek the services of other professionals such as an insurance agent, attorney and/or accountant.

Stonehearth offers estate planning coordination services to clients in need of basic planning assistance. In order to provide the estate planning coordination services Stonehearth has contracted with Encorestate Plans. Encorestate Plans provides an online platform to help coordinate the creation of estate planning documents based on information provided by the client. Stonehearth will send the Encorestate Plans' Questionnaire to its client, which may be completed by the client on paper or online. Once all data is completed, the estate plan will be returned by Encorestate Plans to the Advisor for delivery to the client. As part of this service Stonehearth does not provide legal advice or legal services, but only facilitates the creation of estate planning documents based on the information provided by the client. Clients are encouraged to review the estate planning documents with their attorney, and any estate plan that is not "basic" will be flagged for deeper examination or referral to a local estate planning attorney.

For clients interested in Medicare planning, Stonehearth has engaged a software platform (i65) to help clients navigate their Medicare decisions. The software asks a series of questions, probing whether the client is still working (or not), if there's employer-based health coverage (or not), and when the client plans to begin Social Security benefits, along with asking about the clients' travel plans and health status. The client will then be provided with a recommendation about which type of Medicare to sign up for, and when, and the factors that led to the recommendation, along with detailed instructions about how to proceed for enrollment.

Stonehearth also offers a service to clients with advice related to equity compensation and stock option plans. An incentive stock option (ISO) is a type of stock option that is granted to employees as part of an equity compensation plan offered by an employer. Employee stock option plans are used by companies as a type of employee benefit to provide an opportunity for employees to own shares in the company. Incentive stock options are a specific type of employee stock option that qualify for special tax treatment when a certain set of conditions are met, as described below. Clients retaining Stonehearth for this service will receive a report generated within eMoney which tracks the client's equity compensation grants. This report includes the details of each grant, a risk score based on

various factors, an asset allocation report and tax analysis. Stonehearth charges a monthly subscription fee for this service or in its discretion may waive the fee for a client that has engaged Stonehearth for other services.

### **IRA Rollover Recommendations**

Effective December 20, 2021 (or such later date as the US Department of Labor ("DOL") Field Assistance Bulletin 2018-02 ceases to be in effect), for purposes of complying with the DOL's Prohibited Transaction Exemption 2020-02 ("PTE 2020-02") where applicable, Stonehearth is providing the following acknowledgment to you. When Stonehearth provides investment advice to you regarding your retirement plan account or individual retirement account, Stonehearth is a fiduciary within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way Stonehearth makes money creates some conflicts with your interests, so Stonehearth operates under a special rule that requires us to act in your best interest and not put our interest ahead of yours. Under this special rule's provisions, Stonehearth must:

- Meet a professional standard of care when making investment recommendations (give prudent advice);
- Never put our financial interests ahead of yours when making recommendations (give loyal advice);
- Avoid misleading statements about conflicts of interest, fees and investments;
- Follow policies and procedures designed to ensure that we give advice that is in your best interest;
- Charge no more than is reasonable for our services; and
- Give you basic information about conflicts of interest.

Stonehearth benefits financially from the rollover of your assets from a retirement account to an account that Stonehearth manages or provides investment advice, because the assets increase Stonehearth's assets under management and, in turn, Stonehearth's advisory fees. As a fiduciary, Stonehearth only recommends a rollover when we believe it is in your best interest.

### **General Information**

The investment recommendations and advice offered by the Advisor are not legal advice or accounting advice. The Client should coordinate and discuss the impact of financial advice with the Client's attorney and/or accountant. If the Client's financial situation, investment goals, and/or objectives should change, please inform the Advisor promptly. The change may trigger a need for adjustments in the Client's plan or portfolio. Failure to notify the Advisor of any such changes could result in investment recommendations not meeting the Client's needs.

### **Assets Under Management**

The amount of discretionary assets under management by the Advisor totaled \$310,641,843 as of January 4, 2022. The Advisor does not manage assets on a non-discretionary basis.

## Item 5 Fees and Compensation

### *Investment Management Services*

Fees are negotiable under certain circumstances (e.g., friends, family members, and employees of the Advisor) and are subject to change. Fees are not based on a share of capital gains upon or capital appreciation of the funds or any portion of the funds.

Advisory fees will be charged quarterly in advance based on the market value of the account assets as of the close of business on the last day of the preceding quarter.

If the management of an account commences at any time other than the beginning of a calendar quarter, the initial quarterly fee shall be charged in arrears. The initial quarterly fee will be based on the initial account balance and will be pro-rated based on the number of days during the quarter when the agreement was in effect.

The Client may make additions to the account or withdrawals from the account, provided the account continues to meet minimum account size requirements. No fee adjustments will be made for additions or withdrawals from the account or for account appreciation or depreciation.

Advisory fees for the wrap fee and non-wrap fee program are in accordance with the following fee schedule:

<b>Account Size</b>	<b>Annual Fee</b>
<b>First \$250,000</b>	<b>1.25%</b>
<b>Next \$750,000</b>	<b>1.00%</b>
<b>Next \$2,000,000</b>	<b>0.75%</b>
<b>Next \$2,000,000</b>	<b>0.50%</b>
<b>Ongoing</b>	<b>0.25%</b>

The Advisor may change the above fee schedule upon 30-days prior written notice to the Client.

Advisory fees are based on the aggregate value of all managed accounts within the established household. The value of the portfolio will include, but is not limited to, assets under the management of the Advisor held at TD Ameritrade as well as those assets under the Advisor's management held at other financial institutions (outside accounts). It is the Advisor's policy to charge half of the advisory fee on 529 plan account(s).

If the Advisor's Advisory Representative recommends the purchase of non-publicly traded REITs, Limited Partnerships or other private investment offerings, the position(s) will be included in the calculation of the advisory fee. Since these investments are managed by a non-affiliated investment manager, the Client will pay an advisory fee to the non-affiliated investment manager in addition to the advisory fee charged by the Advisor. Certain Clients may hold non-publicly traded REITs or Limited Partnerships in their portfolios, for which Advisory Representative received a commission. In these situations, the position(s) will be excluded from the advisory fee calculation until the asset either liquidates, merges or goes public. At that time, the position(s) will be included in the fee calculation. Also, some stock positions that are held at the Client's request will be excluded or discounted for fee calculation purposes unless we are offering recommendations on the stock, in which case we will include the fair market value in the calculation of our management fee.

Depending upon the circumstances, the Advisor may combine Client accounts from one household with Client accounts from other households to aggregate account values for fee calculations. The annual fee may then be based on an aggregate value of all accounts within the combined households.

Advisory fees will be deducted directly from the Client's account(s) with TD Ameritrade, provided the Client has given the Advisor written authorization. The Client will be provided with an account statement reflecting the deduction of the advisory fee. If the account does not contain sufficient funds to pay advisory fees, the Advisor has limited authority to sell or redeem securities in sufficient amounts to pay advisory fees. The Client may reimburse the account for advisory fees paid to the Advisor, except for ERISA and IRA accounts.

For outside accounts held at other financial institutions that are under the Advisor's management, the advisory fee will be deducted from a single designated account at TD Ameritrade chosen by the Advisor. If the Client does not have a TD Ameritrade account, the Advisor will invoice the Client quarterly in advance.

A wrap fee program offers advisory services and brokerage services for a single fee. The fee may be higher or lower if the Client was to obtain these services separately. If the Client is eligible for participation in the Advisor's wrap fee program, the Client will not pay separate ticket charges and execution fees or account maintenance fees on those assets held at TD Ameritrade. The Client should read the wrap fee program disclosure brochure (Part 2A Appendix 1) for additional disclosures.

Clients participating in the Advisor's wrap fee or non-wrap fee program with assets managed by the Advisor but not custodied at TD Ameritrade (i.e., outside accounts), will be subject to such fees if assessed.

**Ticket Charges:** TD Ameritrade charges ticket charges for each trade placed on their platform. These charges, which typically range from \$0.00 to \$10.00, are paid by the Client unless the Client qualifies for the Advisor's wrap fee program.

**Wrap Fee Program Qualifications:**

- Have \$1,000,000 (cash or securities) or more of assets on which the Advisor or its Advisory Representatives receive any form of compensation, AND
- Maintain an account at TD Ameritrade.

The \$1,000,000 of assets can be comprised of accounts held at TD Ameritrade along with other financial institutions ("outside accounts") such as mutual fund companies, 529 college savings plan providers, variable annuity companies, retirement plans providers and private and public partnerships. These assets must be managed by the Advisor and the Advisor must receive (or have received) some form of compensation to qualify towards the minimum threshold.

The Advisor will monitor the Client's account values at least quarterly, and maybe more frequently, for continued eligibility in the Advisor's wrap fee program. Should the Client's account values fall below \$800,000, the Client will no longer be eligible to participate in the wrap fee program. The Client's account will be reassigned a new account number under our non-wrap asset management program. This means that the Advisor will no longer pay for ticket charges or account maintenance fees on the Client's account(s) held in custody with TD Ameritrade. Under certain circumstances, the Advisor may permit exceptions to the qualification requirements for the wrap fee program.

In addition to the Advisor's advisory fee, the Client should also be aware that the products the Advisor utilizes within the Client's portfolio will also charge fees (i.e., mutual fund expense ratios). Such fees are not shared with the Advisor and are compensation to the fund managers.

For additional information, please refer to Item 12 that describes the factors that the Advisor considers in selecting or recommending broker-dealers for Client transactions and determining the reasonableness of their compensation.

The Client may deposit assets into the Client's fee-based account on which a commission was previously paid to an individual not associated with the Advisor. The Advisor will include such positions in the calculation of the Advisor's advisory fee.

As stated above, the Advisor utilizes exchange traded funds (ETFs) and open-ended mutual funds (including no-load and load waived). While certain products may pay 12b-1 fees, the Advisor will not receive these fees. Where applicable and for those accounts under its custody, TD Ameritrade will retain the 12b-1 fees.

The Client may purchase the securities recommended by the Advisor directly or through other brokers or agents not affiliated with the Advisor.

#### Termination Provisions

The Client may terminate investment advisory services obtained from the Advisor, without penalty, upon written notice within five (5) business days after entering into the advisory agreement with the Advisor. The Client will be responsible for any fees and charges incurred from third parties as a result of maintaining the account such as transaction fees for any securities transactions executed and account maintenance or custodial fees. Thereafter, the Client may terminate investment advisory services with written notice to the Advisor. Should the Client terminate investment advisory services during the quarter, the Client will be issued a pro-rated refund of the prepaid advisory fee from the date of termination to the end of the three-month billing period.

#### ***Financial Planning and Retirement Planning Services***

Fees for financial planning services are strictly for planning services. Therefore, the Client may pay fees and/or commissions for additional services obtained such as investment management or products purchased such as insurance.

Fees are negotiable. The Client's fees will be dependent on several factors including time spent with the Advisor, number of meetings, complexity of the Client's situation, amount of research, services requested and staff resources.

Clients retaining Stonehearth for estate planning coordination services will pay a flat fee to cover the cost of Encorestate Plans. The fee is negotiable and may be waived in Stonehearth's sole discretion. If deed work is requested by Client these fees will be paid separately by the Client.

#### Termination Provisions

The advisory agreement is in effect through the delivery of final documentation to the Client; otherwise, it will remain in effect for a period of one year. The Client may terminate advisory services obtained from the Advisor, without penalty, upon written notice within five (5) business days after entering into the advisory agreement with the Advisor. Thereafter, the Client may terminate investment advisory services with 30-days written notice to the Advisor. The Client will be responsible for any time spent by the Advisor.

## **Compensation for the Sale of Securities or Other Investment Products**

Persons providing investment advice on behalf of the Advisor's firm are licensed as independent insurance agents. These persons will earn commission-based compensation for selling insurance products, including insurance products they sell to the Client. Insurance commissions earned by these persons are separate and in addition to the Advisor's advisory fees. This practice presents a conflict of interest because persons providing investment advice on behalf of the Advisor's firm who are insurance agents, have an incentive to recommend insurance products to the Client for the purpose of generating commissions rather than solely based on the Client's needs. The Client is under no obligation, contractually or otherwise, to purchase insurance products through any person affiliated with the Advisor's firm.

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

The Advisor does not charge performance-based fees.

## **Item 7 Types of Clients**

The Advisor's services are geared toward individuals and their families including high net worth individuals, trusts, estates, as well as corporations and other business entities.

The Advisor generally requires a minimum amount of assets be deposited to an account for the purpose of obtaining investment management services. The Advisor will generally require the Client to deposit a minimum of \$500,000 (cash or securities). However, under certain circumstances, the Advisor may waive the minimum account size requirement and accept accounts less than \$500,000. Such circumstances may include but not be limited to additional assets will soon be deposited, family members of existing Clients, or the Client has other accounts under management with the Advisor. The Client is advised that performance may suffer due to difficulties with diversifying smaller accounts and due to risk controls potentially being compromised. Performance of smaller accounts may vary from the performance of accounts with more dollars invested since fluctuations in the market may have a greater effect on a less diversified portfolio.

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

### **Method of Analysis and Investment Process**

After determining the Client's appropriate risk level, the Advisor will assign the Client to one of the Advisor's asset allocation model portfolios. The Advisor's lower risk level asset allocation models contain a larger percentage of assets that do not correlate with the stock market. The Advisor's higher risk level asset allocation models contain a larger percentage of assets that DO correlate with the stock market. In constructing the portfolios, the Advisor uses Morningstar & Rixtrema software to identify if the risk and growth factors are appropriate for each risk level.

In determining the composition of investments within each model portfolio, the Advisor uses a proprietary investment analysis strategy. The Advisor takes into account the following:

- Experience of the manager and management team
- Competitiveness of the expenses charged for managing the fund
- Performance of the fund during prior market selloffs and rallies
- Compensation for the risk taken within the fund (i.e., high risk, high reward)

- Volatility of the fund
- Consistency of returns by the fund
- Value added by manager vs. buying cheap index fund

The Advisor weighs each of the factors within the Morningstar software to identify products that the Advisor feels are appropriate to utilize within Client portfolios. The Advisor monitors these products to ensure they are still appropriate to utilize, or to identify if another product would be a better fit.

The Advisor adheres to the following monitoring process:

- At least quarterly the Advisor processes a global rebalancing trade. This global trade looks at each household to ensure their asset categories are within the desired drift range (25% of target exposure, for example 10% target, plus or minus 2.5% drift).
- Monthly cash management screening to ensure Clients who have periodic draws from their accounts to supplement income needs run smoothly
- Quarterly monitoring of fund performance to ensure fund managers are still competitive based on our proprietary screening process
- Annual analysis of tax management strategies to help limit tax liabilities for Clients (i.e. Tax Loss Harvesting).

The Advisor does not represent, warranty or imply that the services or methods of analysis used by the Advisor can or will predict future results, successfully identify market tops or bottoms, or insulate the Client from losses due to major market corrections or crashes. Past performance is no indication of future performance. No guarantees can be offered that the Client's goals or objectives will be achieved. Further, no promises or assumptions can be made that the advisory services offered by the Advisor will provide a better return than other investment strategies.

As stated above, the Advisor primarily uses ETFs and mutual funds. The risks with these products include the costs and expenses for the product that can impact performance, change of managers, and fund straying from its objective. Open ended mutual funds do not typically have a liquidity issue and the price does not fluctuate throughout the trading day. ETFs can also trade at a premium or discount to their net asset value which can detract from performance.

Investing in securities involves risk of loss, including the potential loss of principal. Therefore, the Client's participation in any of the management programs offered by the Advisor will require the Client to prepare to bear the risk of loss and fluctuating performance.

### **Investment Management Process**

The Advisor manages four strategies which include:

- Diversified Portfolio
- Diversified CarbonLITE Portfolio
- Diversified NTF ETF-Only Portfolio
- U.S. Stock Portfolio

#### **Diversified Portfolio:**

The Diversified Portfolio is constructed utilizing a variety of different asset categories including stock exposure, bond exposure and alternative (broadly defined as an asset category that does not fit within the definition of stock or bond exposure) exposure.

This Portfolio is available in three different risk profiles:

- Conservative: The primary objective is to minimize losses and to keep volatility to a minimum. The secondary objective is growth of assets.
- Moderate: The primary objective is to equally balance minimizing losses and growing the assets.
- Aggressive: The primary objective is growth of assets. The secondary objective is to minimize losses and to keep volatility to a minimum.

There is no guarantee that the Advisor's expectations will be met within each of the three risk profiles.

**Diversified CarbonLITE Portfolio:**

The Advisor offers Clients a CarbonLITE portfolio solution ("CarbonLITE"), which is designed to lower the carbon footprint of the equity exposure within the portfolio while maintaining similar asset allocation, risk and expense characteristics as compared to the Diversified Portfolio offering. CarbonLITE is not a traditional "green portfolio" or "socially responsible" portfolio which invests more heavily in certain sectors of the market (i.e. solar power) or avoid other sectors of the market. CarbonLITE seeks to reduce the portfolio's carbon footprint (based on greenhouse gas emissions of underlying companies in the fund) but not at the expense of altering the portfolios characteristics (i.e. asset allocation, risk, expenses). CarbonLITE does maintain fossil fuel exposure but at lower levels than our Diversified Portfolio offerings. The Advisor expects that if/when the fossil fuel industry experiences strong price fluctuations, the CarbonLITE strategy will see a larger discrepancy in performance when compared to the Diversified Portfolio offering.

This Portfolio is available in three different risk profiles:

- Conservative: The primary objective is to minimize losses and to keep volatility to a minimum. The secondary objective is growth of assets.
- Moderate: The primary objective is to equally balance minimizing losses and growing the assets.
- Aggressive: The primary objective is growth of assets. The secondary objective is to minimize losses and to keep volatility to a minimum.

There is no guarantee that the Advisor's expectations will be met within each of the three risk profiles.

**Diversified NTF ETF-Only Portfolio:**

The Advisor offers Clients a Diversified NTF ETF-Only Portfolio ("NTF ETF-Only"). NTF stands for No Transaction Fee. ETF stands for Exchange Traded Fund. The list of available NTF ETFs that the Advisor chooses from is maintained by TD Ameritrade. The list contains NTF ETFs available through TD Ameritrade. TD Ameritrade may make changes to this list overtime. The Advisor expects this portfolio offering to have similar asset allocation and risk characteristics when compared to the Diversified Portfolio offering. The Advisor expects this portfolio to have a lower internal expense ratio compared to the Diversified Portfolio offering. At times, the list may not have an available NTF ETF to fulfill a desired exposure. When this occurs, The Advisor will choose another asset category to invest in.

This Portfolio is available in three different risk profiles:

- Conservative: The primary objective is to minimize losses and to keep volatility to a minimum. The secondary objective is growth of assets.
- Moderate: The primary objective is to equally balance minimizing losses and growing the assets.
- Aggressive: The primary objective is growth of assets. The secondary objective is to minimize losses and to keep volatility to a minimum.

There is no guarantee that the Advisor's expectations will be met within each of the three risk profiles.

### **U.S. Stock Portfolio:**

The Advisor ranks stocks on known quantitative factors that the Advisor believes help identify stocks that are good investments over a full market cycle. They are based on academic and real world research. The Advisor ranks stocks on quality, value, price momentum, & dividend yield. The Advisor then combines the four scores into one "alpha" score to screen the Advisor's universe for stocks to invest in. The Advisor then applies a qualitative analysis to further help the Advisor identify stocks that are an attractive investment. The Advisor's focus is on high quality companies that return cash to shareholders that are inexpensive, and are exhibiting positive price momentum based on quantitative factors. This strategy seeks to add value over the S&P 500, a broad market cap based index. There is no guarantee that this goal will be met.

## **Item 9 Disciplinary Information**

There is no reportable disciplinary information required for the Advisor or its Advisory Representatives.

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

Advisory Representatives are licensed with various insurance companies. The insurance business is not a significant business to the Advisory Representatives and the Advisor does not concentrate resources toward the insurance business. However, it is important to know that if Advisory Representatives recommend insurance products and if the Client purchases insurance products through them, they will earn commissions. This represents a conflict of interest in that the Advisory Representative recommends the insurance product and compensation is received by the Advisory Representative.

The Advisor attempts to mitigate the conflict of interest with the potential receipt of commission by disclosing this conflict to the Client and by informing the Client that the Client is under no obligation to purchase insurance products or services through the Advisor's Advisory Representatives. The Advisor may implement recommendations through other insurance agents.

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

The Advisor has a fiduciary duty to the Client to act in the Client's best interest and always place the Client's interests first and foremost. The Advisor takes seriously its compliance and regulatory obligations and requires all staff to comply with such rules and regulations as well as the Advisor's policies and procedures. Further, the Advisor strives to handle the Client's non-public information in such a way to protect information from falling into hands that have no business or reason to know such information and provides the Client with the Advisor's Privacy Policy. As such, the Advisor maintains a code of ethics for its Advisory Representatives, supervised persons and staff. The Code of Ethics contains provisions for standards of business conduct in order to comply with federal securities laws, personal securities reporting requirements, pre-approval procedures for certain transactions, code violations reporting requirements, and safeguarding of material non-public information about the Client's transactions. Further, the Advisor's Code of Ethics establishes the Advisor's expectation for business conduct. A copy of the Advisor's Code of Ethics will be provided to the Client upon request.

The Advisor and its associated persons may buy or sell securities identical to those securities recommended to the Client. This includes private investment offerings. Therefore, the Advisor and/or its associated persons may have an interest or position in certain securities that are also recommended and bought or sold to Clients. The Advisor and its associated persons will not put their interests before the Clients' interest. The Advisor and its associated persons may not trade ahead of the Client or trade in such a way to obtain a better price for themselves than for the Client or other Clients.

The Advisor is required to maintain a list of all securities holdings for its associated persons and develop procedures to supervise the trading activities of associated persons who have knowledge of the Client's transactions and their related family accounts at least quarterly. Further, associated persons are prohibited from trading on non-public information or sharing such information.

The Client has the right to decline any investment recommendation. The Advisor and its associated persons are required to conduct their securities and investment advisory business in accordance with all applicable Federal and State securities regulations.

The wrap fee program may present conflicts of interest. Some products are offered on TD Ameritrade's platform with no or lower ticket charges, while others require higher ticket charges. Since the Advisor covers ticket charges for qualifying Clients, we may be influenced by this fee when selecting products.

## **Item 12 Brokerage Practices**

As previously stated, the Advisor has entered into a relationship to offer the Client brokerage and custodial services through TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade"). The Advisor is independently owned and operated and not affiliated with TD Ameritrade.

In order to obtain investment management services from the Advisor (wrap fee and non-wrap fee services), the Client will need to maintain an account with TD Ameritrade. If the Client selects another brokerage firm for custodial and/or brokerage services, the Client may not be able to receive investment management services from the Advisor. This practice may prevent the Advisor from achieving the most favorable execution of Client transactions, and may cost the Client more money.

Not all investment advisers require the Client to maintain accounts at a specific broker-dealer. Although the Client would not be eligible for the Advisor's wrap fee program, the Client may maintain accounts at another broker-dealer. The Advisor will provide investment management services on these accounts provided the Advisor is listed on the account with limited trading authorization to allow the Advisor to place trades on the Clients' behalf.

When first selecting TD Ameritrade, the Advisor conducted due diligence. The Advisor examined their ability to service the Client, staying power as a company, industry reputation, reporting ability, trading platform, products and services available, technology resources, and educational resources.

Periodically, the Advisor will review alternative broker-dealers and custodians in the marketplace to ensure TD Ameritrade and their custodians are meeting the Advisor's duty to provide best execution for the Client's accounts. Best execution does not simply mean the lowest transaction cost. When examining firms, the Advisor will compare overall expertise, cost competitiveness and financial condition. The quality of execution by TD Ameritrade will be reviewed through trade journal evaluations. No single criteria will validate nor invalidate a custodian, but rather, all criteria taken together will be used in evaluating the currently utilized custodian.

Additionally, product sponsors such as variable and investment companies and limited partnerships which are recommended to the Client may provide support to the Advisor and the Advisor's Advisory Representatives. Such support includes research, educational information, and monetary support for due diligence trips and Client events.

There is an incentive for the Advisor and the Client's Advisory Representative to recommend one broker-dealer over another based on the products and services that the Advisor will receive rather than the Client's best interest.

### **The Custodian and Brokers We Use**

The Advisor does not maintain custody of the Client's assets that the Advisor manages, although the Advisor may be deemed to have custody of the Client's assets if the Client gives the Advisor authority to withdraw assets from the Client's account (see *Item 15 - Custody*, below). The Client's assets must be maintained in an account at a "qualified custodian," generally a broker dealer or bank. The Advisor recommends that their Clients use TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade") as the qualified custodian. The Advisor is an independently owned and operated and is not affiliated with TD Ameritrade. TD Ameritrade will hold the Client's assets in a brokerage account and buy and sell securities when the Advisor instructs them to. While the Advisor recommends that Clients use TD Ameritrade as custodian/broker, the Client will decide whether to do so and will open the Client's account with TD Ameritrade by entering into an account agreement directly with them. The Advisor does not open the account for the Client, although the Advisor may assist the Client in doing so. If the Client does not wish to place their assets with TD Ameritrade, then the Client will not be able to receive the wrap fee investment management services from the Advisor.

Not all advisers require their Client to use a particular broker-dealer or other custodian selected by the Advisor. Even though the Client's account is maintained at TD Ameritrade, the Advisor can still use other brokers to execute trades for the Client's account.

### **How We Select Brokers/Custodians**

The Advisor seeks to recommend a custodian/broker who will hold the Client's assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. The Advisor considers a wide range of factors, including, among others:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for the Client's account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
- Availability of investment research and tools that assist the Advisor 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
- Prior service to the Advisor and the Advisor's other Clients
- Availability of other products and services that benefit the Advisor, as discussed below.

### **TD Ameritrade**

The Advisor participates in the TD Ameritrade Institutional program. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. ("TD Ameritrade") member FINRA/SIPC. TD Ameritrade is an independent [and unaffiliated] SEC-registered broker-dealer. TD Ameritrade offers to independent investment advisers, services which include custody of securities, trade execution, clearance and settlement of transactions. The Advisor receives some benefits from TD Ameritrade through its participation in the program.

As disclosed above, the Advisor participates in TD Ameritrade's Institutional customer program and may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between the Advisor's participation in the program and the investment advice the Advisor gives to its Clients, although the Advisor receives economic benefits through the Advisor's participation in the program that are typically not available to TD Ameritrade retail Clients. These benefits include the following products and services (provided without cost or at a discount): duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Clients' accounts); the ability to have advisory fees deducted directly from Clients' accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to us by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by the Advisor's related persons and may also pay or reimburse expenses (including travel, lodging, meals and entertainment expenses) for the Advisor's personnel to attend conferences or meetings relating to the program or to TD Ameritrade's advisor custody and brokerage services generally. Some of the products and services made available by TD Ameritrade through the program may benefit the Advisor but may not benefit the Advisor's Clients' accounts. These products or services may assist the Advisor in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help the Advisor manage and further develop our business enterprise. The benefits received by the Advisor or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. The Client should be aware, however, that the receipt of economic benefits by the Advisor or the Advisor's related persons in and of itself creates a potential conflict of interest and may indirectly influence the Advisor's recommendation of TD Ameritrade for custody and brokerage services.

As stated previously, certain products that the Advisor recommends may pay 12b-1 fees. Where applicable and for those accounts under its custody, TD Ameritrade will retain the 12b-1 fees. The Advisor will not receive these fees.

In an effort to strive for best execution and to possibly reduce the price per share and/or other costs to Clients, the Advisor may use block trades when placing trades for multiple Clients that involve the same security. The Advisor conducts aggregated transactions in a manner designed to ensure that no participating Client is favored over another Client. Participating Clients will obtain the average share price per share for the security executed that day. To the extent the aggregated order is not filled in its entirety and when possible, securities purchased or sold in an aggregated transaction will be allocated pro-rata to the participating Client accounts in proportion to the size of the orders placed for each account. Under certain circumstances, the amount of securities maybe increased or decreased to avoid holding odd-lot or a small number of shares for particular Clients.

When dealing with a thinly traded security for multiple Clients, the Advisor will allocate partially filled orders on a prorated basis among Client accounts.

## **Item 13 Review of Accounts**

### **Investment Management Services**

The Client must notify the Advisor promptly of any changes to the Client's financial goals, objectives or financial situation. The Client's Advisory Representative will review the portfolio allocation and determine recommendations for changes.

The Advisor will meet with Clients at least annually to review and discuss their account(s). The Client may request more frequent meetings based on the Client's specific needs.

The Advisor will provide the Client with a written or electronic quarterly report which includes performance, current holdings, current asset allocation and an invoice for the Advisor's management fee. The invoice will specify the advisory fee, the value of the account and the period rate upon which the fee was calculated.

The Client will also receive monthly or quarterly statements directly from the account custodian. Additionally, the custodian will provide the Client with trade confirmations of all transactions occurring in the Client's account.

### **Financial Planning and Retirement Planning Services**

Clients participating in Financial and Retirement Planning Services will not receive regular reviews or reports other than the initial plan or analysis. The Advisor recommends that the Client has their plan reviewed and updated at least annually, or sooner if changes dictate. However, the Client will decide on the time and frequency of any further review. To obtain additional services, the Client will be required to re-contract with us based on the fee schedule disclosed under the program.

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

Product vendors recommended by the Advisor may provide monetary and non-monetary assistance with Client events and provide educational tools and resources. The Advisor does not select products as a result of any monetary or non-monetary assistance. The selection of product is first and foremost. The Advisor's due diligence of a product does not take into consideration any assistance it may receive. Therefore, this is not considered a conflict of interest but a benefit for the Client and the Advisor.

The Advisor has entered into solicitation arrangements with certain individual(s). The solicitor will refer Clients who may be a candidate for the Advisor's investment advisory services. In return, the Advisor will agree to compensate the solicitor for the referral. Compensation to the solicitor is dependent upon the Client entering into an advisory agreement with the Advisor for advisory services. The solicitor will be compensated by a percentage of the Advisor's advisory fee or a flat fee as agreed upon between the Advisor and the solicitor.

Additionally, the Advisor has entered into agreements with certain referral networks to receive client referrals. These referral networks are independent of and unaffiliated with the Advisor and there is no employee relationship between them. The referral networks provide a means for referring individuals and other investors seeking fiduciary personal investment management services or financial planning services to independent investment advisors. The compensation arrangements between the Advisor and the referral network vary depending on the network. Under the compensation arrangement with one referral network, the Advisor pays the network an on-going fee for each successful client referral based on a percentage of the advisory fees earned for managing the capital of the client or investor

that was referred. Under the compensation arrangement with another referral network, the Advisor pays the network a fixed fee for each referral. The Advisor will not charge clients referred through a referral network any fees or costs higher than its standard fee schedule offered to its clients.

The solicitation and referral arrangements described above are established in compliance with SEC Rule 206(4)-3. The solicitor will be required to provide the Client with a copy of the Advisor's disclosure brochure (Form ADV Part 2), and a Solicitor Disclosure Document at the time of referring a Client to the Advisor. The solicitor is not permitted to offer the Client any investment advice on the Advisor's behalf. Clients' advisory fees will not be increased as a result of compensation being paid by the Advisor to any Solicitor.

## **Item 15 Custody**

With the exception of deduction of the Advisor's advisory fees from the Client's account(s), the Advisor does not have custody of the Client's funds or securities.

Under government regulations, the Advisor is deemed to have custody of the Client's assets if the Client authorizes the Advisor to instruct TD Ameritrade to deduct the Advisor's advisory fees directly from the Client's account. However, the Client's custodian, TD Ameritrade, maintains the actual custody of the Client's assets. The Client will receive account statements directly from TD Ameritrade at least quarterly. They will be sent to the email or postal mailing address the Client provided to them. The Client should carefully review those statements promptly when the Client receives them. The Advisor also urges the Client to compare the account statements from TD Ameritrade with the quarterly portfolio reports the Client will receive from the Advisor.

## **Item 16 Investment Discretion**

By execution of the Advisor's advisory agreement, the Client will grant the Advisor authorization to manage the Client's account on a discretionary basis. The Advisor will have the authority to determine, without obtaining specific Client consent, the securities to be bought or sold and the amount of the securities to be bought or sold. The Client may terminate discretionary authorization at any time upon receipt of written notice by the Advisor.

Discretionary trading authority facilitates placing trades in Client accounts so that the Advisor may promptly implement the investment policy that Clients have approved in writing. A limited power of attorney is a trading authorization for this purpose. Clients sign a limited power of attorney so that the Advisor may execute trades, subject to the limitations of the agreement.

In all cases, such discretion is exercised in a manner consistent with the Client's Investment Policy Statement which specifies the Client's investment objectives, goals, and asset allocation for the account. Investment guidelines and restrictions must be provided to the Advisor in writing.

## **Item 17 Voting Client Securities**

The Advisor does not vote on the Client's securities. Unless the Client suppresses proxies, securities proxies will be sent directly to the Client by the account custodian or transfer agent. The Client may contact their Advisory Representative about questions they may have and opinions on how to vote the proxies. However, the voting and how the Client votes on the proxies is solely the Client's decision.

## **Item 18 Financial Information**

The Advisor will not require the Client to prepay more than \$1,200 and six or more months in advance of receiving the advisory service.

The Advisor is financially stable. There is no financial condition that is likely to impair the Advisor's ability to meet the Advisor's contract actual commitment to the Client or any other Client.

The Advisor has not been the subject of a bankruptcy petition.

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

This section is not applicable to the Advisor. The Advisor is not state registered. The Advisor is registered with the United States Securities and Exchange Commission.