



ADV Part 2A Brochure & 2B Supplements

Item 1 – Cover Page

## Baltimore-Washington Financial Advisors, Inc.

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December 31, 2012

This brochure provides information about the qualifications and business practices of Baltimore-Washington Financial Advisors, Inc. (BWFA). If you have any questions about the contents of this brochure, please contact BWFA's Chief Compliance Officer, Mr. Robert Cassel; or President, Mr. Robert Carpenter. They may be reached by phone at 410-461-3900, toll free 888-461-3900, or by email at [emailus@bwfa.com](mailto:emailus@bwfa.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Additional information about BWFA is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

BWFA is a registered investment advisor that hires only highly-skilled, well-qualified advisors. However, the SEC does not evaluate the expertise of advisors, and so registration with the SEC does not imply that BWFA or any individual providing investment advisory services on behalf of BWFA possesses a certain level of skill or training. Prospective clients can rely on BWFA's oral and written communications as a meaningful basis on which to evaluate the firm. Conversations with BWFA's experienced advisors and review of BWFA's website and print material will aid prospective clients in determining if the services offered by BWFA will meet clients' unique investment management, financial planning, tax, and business service needs.

Rev. 4/29/2013

## **Item 2 – Material Changes**

Summarized below are the material changes made to BWFA’s brochure since its last version dated June 29, 2012.

1. Item 4B.4 describes the addition of Business Services now offered by BWFA. For clients who own or want to own a business, BWFA can perform business valuations and succession/exit planning, offer business accounting and financial advice, and help clients obtain business financing. In addition, we can aid business owners and potential owners with services, support, and advice during each step of a business sale/purchase. BWFA can guide a client through preparing a business for sale, determining market value, examining the financial implications of the sale, marketing and positioning the company, matching buyers and sellers, negotiating terms, performing due diligence, and closing the transaction.
2. Item 5A.2(a) describes a new relationship pricing option for new investment management clients who have a minimum of \$1.5 million in assets managed by BWFA and who wish to utilize multiple BWFA services.
3. Item 12A.3(b) includes three new investment research publications used by BWFA that fall under our “Additional Services” agreement with TD Ameritrade. BWFA cancelled Applied Finance Group and replaced it with Morningstar Select Institutional Equity Research, Grant’s Interest Rate Observer, and Standard & Poor’s Market Scope Advisor.
4. Item 14B.1 describes the addition of an employee client referral program whereby select BWFA employees may be eligible to receive compensation for referrals to the firm of prospective clients who become BWFA investment management clients.
5. Item 14B.3 describes the possibility of BWFA having agreement(s) with one or more third parties to solicit clients on its behalf. In cases where a referred prospective client becomes an investment management client, BWFA will pay the third-party solicitor a percentage of its advisory fees. This referral fee does not increase the fees paid by the client to BWFA.
6. Changes were made in the Brochure Supplements section, which begins on page 31, to include the addition of information regarding the educational background and business experience for new BWFA advisory professionals. Information on former BWFA advisory professionals has been removed.

BWFA ensures that clients receive a summary of the material changes to its brochure within 120 days following the December 31 close of BWFA’s fiscal year. In addition, BWFA may provide disclosure information about material changes when they are made.

BWFA will provide clients with a new brochure free of charge at any time. A copy of BWFA's current brochure is available in the "About Us" section of BWFA's website [www.bwfa.com](http://www.bwfa.com), or may be requested by contacting BWFA at 410-461-3900 or [emailus@bwfa.com](mailto:emailus@bwfa.com).

Additional information about BWFA is available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website also provides information about persons affiliated with BWFA who are registered, or are required to be registered, as investment advisor representatives of BWFA.

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## Item 4 – Advisory Business

- A. *Firm Description.*** Baltimore-Washington Financial Advisors was incorporated in 1986 and is a comprehensive Fee-Only wealth management firm, offering Financial Planning, Investment Management, Tax, and Business Services. As a Fee-Only advisor, BWFA only receives compensation directly from its clients for the services it provides to them. [See Item 12.A(3)(b), page 20] Because BWFA's compensation is not contingent on the purchase or sale of financial products, it can offer clients advice that is objective and unbiased. Advisors and employees in BWFA's Financial Planning, Investment Management, Tax, and Business Services departments work as a team and take a holistic approach to analyzing each client's situation. BWFA's objective is to integrate the disciplines of planning, investments, and taxes so its clients can derive a greater benefit than they would if these issues were addressed individually. BWFA's principal owner is Robert Carpenter (100%).
- B. *Types of Advisory Services.*** BWFA offers services to clients in Financial Planning, Investment Management, Taxes, and Business Services as outlined below.
1. Financial Planning Services – BWFA provides the following types of planning services.
    - a. *Pre-Retirement Plans* – These plans address the issues that are of concern to people who are more than five years from retirement. The objective of this type of plan is to identify ways for clients to improve their financial situation so they can meet their current goals without sacrificing their longer-term retirement goals. Specific recommendations are provided in the areas of insurance, investments, savings, educational expenses, and other areas of concern to clients. In addition, the plan identifies estate planning issues that need to be addressed, including such things as wills, special needs trusts, and medical directives.
    - b. *Retirement Plans* – These types of plans address the myriad issues of concern to people who are within five years of retirement, or in retirement. The objective of this type of plan is to outline for clients how they can achieve their retirement goals and live in retirement with financial security. This is accomplished by developing detailed year-by-year financial projections and using sophisticated analytical tools (such as Monte Carlo simulation) to “test” different scenarios, and then helping clients identify the best course to follow. In addition, the plan identifies estate planning issues that need to be addressed.
    - c. *Estate Plans* – BWFA's estate planning service has three objectives:
      - Organize the client's financial affairs to make the estate settlement process as easy and as inexpensive as possible for the client's heirs, thereby promoting family harmony

- Establish how the client's assets will be handled when s/he is no longer able to manage them
- Minimize taxes (federal & state estate and income)

Our Estate Planning service is available in three phases, as follows:

**Phase 1 – Planning.** Clients with substantial wealth and certain other clients may benefit from the use of planning techniques beyond basic wills. BWFA will identify if more sophisticated techniques are desirable and appropriate. Implementation of some of these techniques and preparation of legal documents (wills, trusts, etc.) will require that a client employ an attorney at an additional cost. BWFA may recommend one or more attorneys, whom it considers experienced and qualified in the area of estate planning, and work with the client and the client's attorney to facilitate implementation of the recommendations and satisfactory completion of the plan. If BWFA recommends an attorney, it will coordinate with the attorney to determine the total cost to the client (BWFA fee + attorney's fee) so the client knows the cost before committing to the service.

**Phase 2 – Family Summit.** Good communication is the key to maintaining family harmony. BWFA will facilitate communication with the client's family and heirs through a family summit. At the family summit we will discuss the client's estate plan and disclose details of the plan as the client directs us.

**Phase 3 – Estate Settlement.** BWFA will guide and assist the client's personal representative and heirs throughout the process of transferring the client's wealth. BWFA's objective is to minimize delays, cost, and confusion. We will be available to family members and to the client's heirs to act as an objective, independent advisor and promote understanding and harmony among the interested parties. In certain situations it may be necessary to employ the services of an attorney at an additional cost.

BWFA generally expects to complete all types of financial plans in 30-45 days from the date the Financial Planning Service Agreement is signed. There are usually multiple contacts during the data gathering phase and at least one face-to-face meeting at the time the plan is delivered.

- d. *Financial Plan Reviews* – Included as part of all Pre-Retirement Plans, Retirement Plans, and Estate Plans – Phase 1 are two annual Financial Plan Reviews. The purpose of these reviews is to determine if the client's financial objectives are being met and if modifications or revisions to the plan should be made. At Financial Plan Review meetings, a member of BWFA's financial planning team will:

- Compare the client's current financial situation with the projections contained in the original plan (Pre-Retirement and Retirement Plan reviews only)
  - Review the status of action items identified in the original plan
  - Discuss the client's current situation
  - Identify any new issues and establish action items, as appropriate
- e. *Financial Planning Projects*– BWFA will occasionally provide to clients specialized financial planning information that meets a specific client need. These types of special projects generally fall outside the scope of BWFA's typical financial plans and are completed by BWFA on a discretionary basis.
2. Investment Management Services – BWFA's advisors/portfolio managers evaluate a client's financial goals, financial situation, income needs, tax circumstances, and investment risk tolerance. Based on these factors, BWFA designs, constructs, and implements one or more investment portfolios appropriate to the client's circumstances. The investments selected for the client's portfolio conform to the BWFA investment model chosen by the client in consultation with his/her advisor. The advisor provides ongoing oversight and management of the client's investments in accordance with the advisor's analysis of current economic and market conditions. BWFA's advisors make changes in a client's portfolio (execute sells and buys) only when they believe the changes will benefit the client. Because BWFA receives no compensation for making trades, the advisors can act in the interest of their clients. BWFA provides investment advice to clients only with respect to the following:
- Securities that are listed on public securities exchanges, including stocks, bonds, preferred securities, convertible securities, real estate investment trusts, options on securities, and publicly traded limited partnerships
  - Certificates of deposit
  - United States government securities
  - Collective investment funds (such as index funds, actively managed mutual funds, and exchange-traded funds) that are composed of securities listed on public securities exchanges

BWFA does not provide investment advice on private investments or securities that do not trade on public securities exchanges. One exception occurs when an individual, prior to becoming a BWFA client, holds non-publicly traded items (such as annuities or permanent life insurance) whose sale would create negative tax consequences for the client.

BWFA maintains a buy/sell/hold list of approximately 60-80 securities that it believes are appropriate investments for its clients. These 60-80 securities vary as to type (e.g. aggressive growth, growth, income, foreign, liquid investment, etc.) A client's investment model (as well as certain other factors) defines the proportion of each security type that is held in the client's account. BWFA follows news, published analyses, and developments that it believes might influence the price, direction, and

long-run suitability of each of the 60-80 investments. BWFA uses both fundamental analysis (research of companies and the economy) and technical analysis (research of market behavior) to determine the health and value of individual investments as well as the best time to execute purchases or sales. See Item 8.A, page 12 for a discussion of BWFA's methods of analysis for managing assets. See Item 13.A(1), page 23 for additional information on BWFA's buy/sell/hold list.

3. **Tax Services** – BWFA provides tax preparation, estimated tax, and tax advisory services. BWFA's tax services are integrated with the planning, investment and business services provided by BWFA, thus distinguishing the tax services offered by BWFA from those offered by other tax preparers. This integration can be of significant benefit to clients. Each tax service is summarized below:
  - a. ***Tax Preparation*** – BWFA uses the data provided by the client to prepare all of the forms, schedules, and worksheets that are required for a complete and accurate tax return. In cases where the tax client also utilizes BWFA's investment management services, the client's advisor/portfolio manager is engaged in the tax process to help ensure that all relevant factors and tax savings strategies are considered and applied appropriately. Advisors/Portfolio managers also review for completeness and accuracy the tax returns of their clients prior to filing.
  - b. ***Premium Estimated Tax Service*** – BWFA provides this service to ensure that a client's estimated tax payments are computed accurately and paid by the due dates to the appropriate federal and state taxing authorities. The service is designed for clients who must make estimated tax payments and who may have wide variations in their income and/or deductions. The service has the following objectives:
    - Relieve the client of the burden of calculating and making quarterly estimated tax payments
    - Avoid/Minimize penalties for underpayment of taxes
    - Plan the payment of large tax bills (\$1,000 or more) by the due dates
    - Avoid a large, unexpected tax bill
  - c. ***Tax Planning and other Advisory Services*** – BWFA will research complex tax issues and provide tax advice to clients. When engaged in providing tax consulting services, such advice will be provided in writing with appropriate tax regulation references. Examples of projects include:
    - Stock option tax analysis
    - Tax-free disposition of real estate
    - Choice of business entity
    - Responses to tax agency audits or letters
    - Representation at audits
    - Planning for large charitable donations
    - Multi-year alternative minimum tax planning projects



4. Business Services – BWFA offers a variety of business-related services to clients who own or want to own a business. We perform business valuations and succession/exit planning, offer business accounting and financial advice, and help clients obtain business financing. In addition, we aid business owners and potential owners with services, support, and advice during each step of a business sale/purchase. BWFA guides a client through preparing a business for sale, determining market value, examining the financial implications of the sale, marketing and positioning the company, matching buyers and sellers, negotiating terms, performing due diligence, and closing the transaction.

**C. *Tailoring Investment Management Advisory Services.*** In addition to what is described above in section B above, BWFA tailors its advisory services to the individual needs of investment management clients in three basic ways.

1. Model Portfolios – BWFA offers eight different investment models in order to meet the needs of individual clients. Models range in risk level from Aggressive Growth to Capital Preservation, with six levels in between. In addition, some custom models exist to accommodate unusual circumstances. Each model provides specific guidelines for allocating client investments among various asset types. Clients choose a BWFA investment model in consultation with their advisor/portfolio manager. Each client is encouraged to complete a standard investment risk tolerance assessment. Results of the assessment help the client and advisor understand the client's attitude toward investment risk and confirm the suitability of the selected investment model. The use of investment models:
  - Ensures that clients' funds are invested in a manner appropriate for their risk tolerance, financial goals, and circumstances
  - Allows the advisor/portfolio manager and the client to share an understanding about how the advisor is investing the client's funds
  - Makes it easy for the client to monitor the investment activities of the advisor and see that the model is being followed as agreed
  - Ensures appropriate diversification among investments
2. Two Investment Approaches – BWFA offers its clients two different approaches to investing, as explained below:
  - a. *Individual Securities* – For clients with managed accounts in excess of \$500,000, BWFA recommends model portfolios that include the use of individual stocks and other non-pooled securities, as well as some selected mutual funds that target specific portions of the investment model (foreign investments, for example). Portfolios for these clients may include securities of small growth, mid-size, and large companies. Included securities might be purchased for the purpose of generating income, for capital appreciation, or for providing a mix of price appreciation and current income. In addition, a portfolio might include US government or corporate bonds and/or municipal securities. Only securities listed on a

public exchange are candidates for inclusion in a client's account. By investing primarily in individual securities, clients receive a more customized portfolio, having the following benefits:

- Lower costs due to the avoidance of the additional fees associated with investing in collective investment funds
- Consideration of tax planning issues
- Complete control over what is bought and sold, which provides:
  - The ability to accommodate special investment requests (no tobacco stocks, for example)
  - The ability to minimize/eliminate the redundancy that can occur when using collective investments (when the same security is held in more than one fund, for example)
- Transparency (clients know the exact securities held in their portfolios)
- Allocation around existing concentrated positions, thus better managing risk (for example, a portfolio manager can avoid purchasing energy securities for a client that works for a gasoline company and already has significant investment exposure in this sector)

b. *Collective Investments* – BWFA also offers a wealth accumulation platform that invests primarily in index funds, actively managed mutual funds, and exchange-traded funds (ETFs). This approach is designed for clients who have not accumulated sufficient wealth to invest in a diversified way using individual securities. BWFA generally recommends this approach for clients investing up to \$500,000, however any client may elect to have his/her accounts managed in this way. Wealth accumulation accounts are “rebalanced” quarterly, to maintain allocations consistent with client-chosen investment models. Clients who elect this approach will incur the fees charged by the collective investment funds, in addition to BWFA’s investment management fees. However, a fund’s fees are an important part of BWFA’s selection criteria. Accordingly, fund fees usually total less than ½ of 1% of the total account value.

3. Restrictions and Special Instructions - Clients may place restrictions on securities or provide special instructions regarding their investments. BWFA will endeavor to honor these restrictions and special instructions. However, clients are advised in the BWFA Service Agreement each client signs that accommodating restrictions and special instructions constitutes an exception to BWFA’s normal operating procedure and is therefore subject to occasional unintentional error. Accordingly, clients are advised to monitor their accounts and review the trade confirmations and reports they receive from the custodian and from BWFA. Clients should

notify BWFA within 60 days if they observe that BWFA has failed to properly act on restrictions or special instructions that clients have placed on their accounts. It is BWFA's policy to make each client "whole" for any loss or gain a client sustains as a result of BWFA failing to observe the restriction or special instruction, when the client notifies BWFA within 60 days of the error. Making a client "whole" means that BWFA will refund losses to, or remove gains from, the affected account(s).

**D. *Wrap Fee Programs.*** BWFA does not provide a wrap fee program, nor receive fees from any source except its clients. A wrap fee program bundles or wraps investment advice, custody, and execution services under one contract for a single fee. Rather, BWFA chooses to operate in a transparent way where a client is charged specific fees based directly upon the transactions in the client's account.

**E. *Assets Under Management.*** As of December 31, 2012, BWFA was managing client assets in the amount of \$303,609,268 on a discretionary basis and \$232,146 on a non-discretionary basis.

## Item 5 – Fees and Compensation

**A. *Compensation for Advisory Services.*** Clients are provided with written statements of all applicable fees when they sign the BWFA Service Agreement. Fees are outlined below for Financial Planning, Investment Management, and Tax services, which are not negotiable, and for Business Services, some of which are negotiable.

1. **Financial Planning Services** – Fees for financial planning services are fixed and are based on the scope of the project. A client is advised of the fee prior to the time that work begins.

<i>Plan Type</i>	<i>Fee</i>	
Pre-Retirement Plan	\$3,000	
Retirement Plan	\$4,000	
Estate Plan	Phase 1 – Planning & Implementation	\$1,000*
	Phase 2 – Family Summit	\$ 900
	Phase 3 – Estate Settlement	Variable
Financial Planning Projects	Variable	

\* Discounted to \$500 when completed with a Pre-Retirement Plan or Retirement Plan. Attorney fees are not included and are billed separately by the attorney.

Adjustments to fees:

- A 10% discount is provided to APL Federal Credit Union members for a Pre-Retirement, Retirement, or Estate Plan – Phase 1.

- Late data fee – BWFA reserves the right to increase the plan fee by as much as 25% to cover additional analysis and data correction if the client does not provide data necessary to complete the plan in a timely fashion.

## 2. Investment Management Services

- Portfolio Management* – The annual fee for portfolio management services is a percentage of the market value of assets under management on the last day of each calendar quarter. BWFA offers two typically non-negotiable pricing options for annual investment management fees. (BWFA’s managers may, however, occasionally make an exception and negotiate investment management fees for a client when an exceptional circumstance exists. Exceptional circumstances may include, for example, a client who has significantly greater investible assets than BWFA’s typical client.) BWFA’s investment management pricing options are as follows:
  - Standard Pricing
    - 1.25% on the first \$500,000 of assets under management
    - 1.00% on assets under management between \$500,000 and \$2,000,000
    - 0.85% on assets under management in excess of \$2,000,000
  - Relationship Pricing – This pricing option may be offered to investment management clients who have a minimum of \$1.5 million in assets managed by BWFA and who wish to utilize multiple BWFA services. The fee, which covers investment management and at least one other BWFA service, is a percentage of assets under management and is noted on the BWFA Service Agreement signed by the client. The quoted fee may vary by client and is based on the services desired and the amount of client assets under management. BWFA reserves the right to adjust the fee, should the client’s assets under management drop below \$1.5 million or if services are added or dropped.
- Employer-Sponsored Retirement Plan Fee Discount* – A 50% discount of the standard investment management fee rates in A.2(a) above may apply (by agreement, and only for specific employer plans) to employer-sponsored retirement plan assets such as those in a 401(k) or 403(b) that are included under BWFA’s management. For fee calculation purposes, the value of retirement assets subject to the discount is not aggregated with the value of other BWFA-managed assets.

Minimum fee – There is a \$5,000 minimum annual fee for clients whose assets are primarily invested in individual securities.

3. Tax Services – BWFA offers three different types of tax services. Fees for these services are not negotiable and are as follows:

- a. *Tax Preparation* – Fees are charged based on the number and type of forms, schedules, and worksheets required to complete a tax return. All new tax clients are provided a fee quotation based on their prior year's tax return. In some instances, additional hourly charges may apply for complex returns. BWFA electronically files client returns at no additional charge.
  - b. *Premium Estimated Tax Service* – Fee is \$450 per year to compute and facilitate payment of estimated taxes to the appropriate federal and state taxing authorities.
  - c. *Tax Planning and other Tax Advisory Services* – Fees are charged according to the scope and complexity of the project. A client is advised of the fee prior to the time that work begins.
4. Business Services – Fees for BWFA's business services vary based on the type and size of the business and the complexity of the service to be performed. The fee for successfully buying or selling a business is calculated as a percentage of the purchase/sale price of the business. Fees for certain business services are negotiable.

## **B. Payment Method and Frequency of Fees.**

1. Financial Planning clients are billed as follows:
  - a. Pre-Retirement Plan, Retirement Plan, and Estate Plan – Phase 1 clients sign a three-year service agreement that includes preparation and presentation of a comprehensive financial plan and two annual Financial Plan Reviews. Clients are billed for this service as follows:
    - 1/3 due upon execution of the service agreement
    - 1/3 due one year from the execution of the service agreement
    - 1/3 due 2 years from execution of the service agreement

At the end of the third year, clients have the option of renewing the financial planning agreement at the fees in effect at the time of the renewal.
  - b. Clients are billed for Estate Plans – Phase 2 and –Phase 3 as follows:
    - 1/2 due upon execution of the service agreement
    - 1/2 due upon completion of the plan
  - c. Clients are billed for Financial Planning Projects at the completion of the work.
2. Investment Management fees are deducted quarterly from clients' investment accounts. At the end of each calendar quarter, fees equal to one-quarter of the annual rate [see Item 5.A(2)(a), page 8] are deducted from client accounts in accordance with the BWFA Service Agreement that each client reviews and signs before services are performed. Fees are charged in arrears, and are not prorated between quarters. For example, clients who begin investment management

service in February are charged the full quarterly fee at the end of March; clients who terminate service in February are not charged a management fee for the January – March period. In some cases, BWFA will charge the management fee incurred on one of a client's accounts to another of the client's accounts. This may occur when it is impractical or not possible to charge the fee to the account that incurred the fee as, for example, when the account:

- Has a very small balance (e.g. a child's account)
- Is an employer-sponsored retirement account, such as a 401(k) or 403(b)

Clients receive quarterly investment management invoices that detail how management fees are calculated and charged.

3. Tax Services clients are billed at the completion of the work.
4. Business Services clients are billed for fees incurred. Clients who engage BWFA to aid them in buying or selling a business are billed a monthly retainer fee and a success fee at the time of the closing of the purchase/sale of the business. Clients utilizing other business services are billed one-half at time of signing an agreement and one-half at the completion of the work.

**C. Additional Fees.** The following are other fees or expenses clients may pay:

1. Proxy Voting Services – A separate proxy voting service fee of \$10 per quarter (\$40 per year) is charged to investment management clients who are invested primarily in individual securities. Only one quarterly fee per client is charged to the client's account, regardless of the number of accounts held. This fee is not charged to clients who are primarily invested in collective investments such as mutual funds and exchange-traded funds (ETFs). This fee is fully disclosed in the Investment Management Fees section of BWFA's Service Agreement. BWFA utilizes the services of Institutional Shareholder Services (ISS) to vote proxies on behalf of BWFA clients. See Item 17, page 29 for a discussion of proxy voting.
2. Account Set-up Fees – Account set-up fees may be charged, if the work required by BWFA to consolidate a client's assets or obtain tax cost information is significant. If applicable, the fee will be indicated on the BWFA Service Agreement signature page.
3. Transaction Fees – All BWFA client accounts are held with a custodian, currently TD Ameritrade (except for employer-sponsored retirement accounts and annuities, which are necessarily held with other custodians). For investment management services, TD Ameritrade (TDA) charges transaction fees to client accounts. Though fees are subject to change, transaction fees currently in effect are as follows:

Buy/Sell Individual Security	\$9.99 or \$16.99*
Buy/Sell Exchange-Traded Fund (ETF)	\$9.99 or \$16.99*
Buy/Sell Mutual Fund	\$24.00 or \$31.00*
Buy/Sell "No Transaction Fee" Mutual Fund	\$0.00
Bond Settlement Fee	\$35.00

\* Lower transaction fee applies to clients with invested assets of \$500,000 or more **AND** to clients who choose to receive electronic statements and trade confirmations. Higher transaction fee applies to clients with invested assets of less than \$500,000 who choose to receive paper statements and trade confirmations.

BWFA has no control over and does not determine the brokerage commission rates paid by its clients. TDA can change their commission rates at any time. The cost of brokerage commissions clients pay to TDA is disclosed in the Investment Management Fees section of the BWFA's Service Agreement. See Item 12, page 18 for a discussion of brokerage practices.

4. Collective Investment Management Fees – Mutual funds and ETFs also charge internal fees, which are disclosed in each fund's prospectus. Such charges are in addition to BWFA's investment management fee. BWFA does not receive any portion of these mutual fund and ETF commissions and fees.

#### **D. Fees Paid in Advance.**

1. Investment management and tax services fees are not paid in advance.
2. A portion of financial planning fees are pre-paid at the time the agreement is signed, as follows:
  - 1/3 of the fee for Pre-Retirement Plans, Retirement Plans, and Estate Plan Phase 1
  - 1/2 of the fee for Estate Plan Phase 2 and Phase 3

A client can obtain a full refund of pre-paid fees, if the refund request is made by the client before BWFA has begun work on the plan. After work has begun, fees will be prorated based on the amount of work completed, and partial refunds granted accordingly.

3. Several of BWFA's business services require payment of one-half the fee at the time the agreement is signed. The pre-paid fee is not refundable. In addition, a monthly retainer fee is charged for those who engage BWFA to assist with buying or selling a business or obtaining business financing. Retainer fees are not refundable.

- E. *Compensation for Sales.*** Neither BWFA nor any supervised person accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds, insurance products, or annuities.

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

BWFA does not charge nor accept any performance-based fees (fees based on a share of capital gains or on capital appreciation of the assets of a client). In addition, BWFA is not a side-by-side manager (one that manages both accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as an hourly or flat fee or an asset-based fee). See Item 5, page 7 for a complete discussion of fees charged.

## **Item 7 – Types of Clients**

BWFA clients include individuals, families, trusts, estates, foundations, and religious, charitable, and other non-profit organizations. While BWFA does not have a minimum asset size to qualify as a client, the firm does have two approaches to managing client accounts. For managed accounts in excess of \$500,000, BWFA recommends using primarily individual stocks and other non-pooled securities, as well as some selected mutual funds and/or exchange-traded funds (ETFs). For clients investing up to \$500,000, BWFA recommends using primarily index funds, actively managed mutual funds, and ETFs. The firm may make exceptions to these parameters in certain circumstances. See Item 4.C(2), page 5 for a complete discussion of the two investment approaches offered by BWFA.

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

- A. *Methods of Analysis and Investment Strategies.*** BWFA's investment strategy is to create diversified client portfolios that earn favorable investment returns while controlling volatility and risk according to the parameters of each client's chosen investment model. BWFA primarily uses fundamental methodology to analyze investments and the associated risk of loss. We also take into consideration the cyclical nature of the economy. In addition, we occasionally use basic technical analysis:
- **Fundamental** – This method of analysis examines a company at a basic or fundamental financial level. It considers its financials and operations (especially sales, earnings, growth potential, profitability, competitive strengths and weaknesses, assets, debt, management, etc.) in order to determine the company's financial health. Fundamental analysis takes into consideration only



those variables that are directly related to the company itself, rather than the overall state of the market or technical analysis data.

- Cyclical – This takes into consideration economic cycles in order to predict how various sectors of the market will perform. For example, in periods of slow economic activity, stocks in consumer staples such as food and household products may be appropriate. As the economy moves into a period of recovery and people resume spending, consumer discretionary stocks such as retailers or automakers become more attractive.
- Technical – In contrast to fundamental analysis, this method of evaluating securities analyzes market activity, such as past prices and volume, in order to forecast market direction. Technical analysis utilizes price pattern charts and other tools to identify trends and patterns that can suggest future market behavior.

BWFA gathers and utilizes research information from a variety of sources including: Bloomberg, Standard and Poor's, Value Line, Morningstar, news from other financial magazines and publications, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases. In addition, for some companies we may interview management.

BWFA's Investment Committee meets weekly to review selected securities that are on its buy/sell/hold list or securities that committee members want to add/remove from this list. See Item 13, page 23 for a discussion BWFA's buy/sell/hold list and Investment Committee meetings.

BWFA's clients should be aware that there are risks associated with all types of investments, including securities. Investments are not insured or guaranteed. Investing in securities involves risk of loss that clients should be prepared to bear.

**B. *Material Risks for Each Investment Strategy or Method of Analysis.*** Utilizing fundamental and technical analysis methods provides essential information for choosing high-quality investments for BWFA clients. However, no analysis method can provide an infallible means for choosing investments that will perform well. Past market and industry trends are not necessarily accurate predictors of future behavior or performance. Stock markets tend to move in cycles with periods of rising prices and falling prices. The value of a stock in a client's portfolio may decline due to general weakness in the stock market or because of factors that affect a company or a particular industry. Clients should expect the value of their portfolios to rise and fall. No client should assume that future results will be profitable or correspond directly to the performance results of any comparative benchmark or composite. The investments made by BWFA for their clients carry no guarantee of return or of principal preservation. The foregoing is true not only for stocks and fixed income securities, but (to a lesser extent) for cash and cash equivalents as well.

Though all investments carry risk as outlined above, BWFA strives to invest client funds in a way that reduces market volatility and risk. To that end, BWFA:

- Restricts investments to those approved by the BWFA investment committee
- Diversifies investments among at least ten different market areas
- Avoids speculative practices, and purchases securities based on independent research
- Controls exposure within a client's portfolio by avoiding "big bets" and limiting purchases and holdings of a single asset to generally 2% to 5% of the total market value of the client's portfolio
- Selects investments with the intent of holding them for a relatively long period of time (generally at least 3 years) unless there are material changes in outlook for the economy or for individual investments
- Utilizes eight different investment models that help define the level of risk acceptable in a client's portfolio. Risk is controlled within each portfolio model by specifying the types and percentages of stocks and income investments and the percentage of cash. See Item 4.C(1), page 5, for a more complete discussion of BWFA's use of investment models

**C. *Recommendation of Particular Types of Securities*** - BWFA only recommends securities that are listed on major public securities exchanges. Following this standard allows for a much higher probability of finding high-quality research and news on the securities BWFA buys for its clients. It also provides for greater liquidity of investments, allowing securities to be bought and sold without significantly impacting market prices. BWFA does not recommend to clients investments that carry significant or unusual risks (risks beyond those outlined above and inherent in financial market investments).

BWFA recommends that cash and cash equivalents (money market funds and bank deposits) be held as a relatively small percentage of several of its more conservative investment models. BWFA charges investment management fees on the full value of a client's account, including any funds held in cash and cash equivalents. Doing so helps avoid the potential conflict of interest that could result when determining the appropriate level of cash in a client's portfolio. It is BWFA's policy to keep clients as fully invested as possible, within the guidelines of their chosen investment models, except when BWFA determines that there is an exceptional level of risk in the financial markets.

## **Item 9 – Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to an objective evaluation of BWFA or the integrity of BWFA's management. BWFA and its management persons do not have any material legal or disciplinary events to disclose. However in 2002, one of BWFA's financial

advisors, Robert Ray, in his previous position as a senior vice president with a local bank, supervised an employee who was found to have defrauded the bank. There were no findings of fraudulent activities by Mr. Ray, and there was no monetary penalty imposed on him. BWFA does not believe that this action is material to Robert Ray's work as a financial advisor and portfolio manager with BWFA.

- A. *Criminal or Civil Action.*** BWFA and its management persons do not have any material disciplinary information to disclose for this item.
- B. *Administrative Proceeding before the SEC or other Regulatory Agency or Authority.*** BWFA and its management persons do not have any material disciplinary information to disclose for this item.
- C. *Self-Regulatory Organization Proceeding.*** BWFA and its management persons do not have any material disciplinary information to disclose for this item.

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

- A. *Registration as a Broker-Dealer.*** Neither BWFA nor any of its management personnel is registered, or has application pending to register, as a broker-dealer or registered representative thereof. All of BWFA's management personnel who provide investment advice to clients are registered investment advisor representatives and conduct the firm's business using TD Ameritrade (TDA) as the custodian. BWFA operates as an independent corporation and is entirely separate from TDA.
- B. *Registration as a Futures Commission Merchant.*** Neither BWFA nor any of its management personnel is registered, or has application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of one of these entities.
- C. *Relationships.*** BWFA has relationships with the following:
  - 1. Banking or Thrift Institution – BWFA has a long-standing relationship with the Applied Physics Laboratory Federal Credit Union (APL FCU) whereby the credit union co-sponsors events, provides BWFA literature in its branches, publicizes BWFA on its website, and refers prospective clients to BWFA. BWFA does not compensate APL FCU for providing exposure or referrals. The director of marketing at APL FCU is the primary contact. APL FCU members receive a 10% discount on planning services at BWFA. There is no compensation provided by BWFA to any person affiliated with APL FCU. BWFA feels its relationship with APL FCU does not present a material conflict of interest either for BWFA's clients or for members of APL FCU.
  - 2. Accountant or Accounting Firm – BWFA has no formal relationship with any accounting firm, however BWFA seeks referrals from accountants and refers clients to accountants when the opportunity arises. No compensation of any

kind is involved. BWFA does not feel that any material conflict of interest is present.

3. Lawyer or Law Firm – BWFA has no formal relationship with any law firm, but BWFA seeks referrals from attorneys and refers clients to attorneys when the opportunity arises. No compensation of any kind is involved.

Clients and potential clients should be aware that one of the law firms to which BWFA may refer clients with estate planning needs is Bouland & Brush, LLC. An estate planning attorney with Bouland & Brush serves as Trustee for two foundations for which BWFA provides investment management services and, accordingly, from whom it receives fees. These relationships could potentially bias BWFA's referral recommendation to a client in favor of this particular law firm. However, no fees are received from or paid to Bouland & Brush or any other law firm or attorney for referrals, and fees paid to BWFA as a result of this relationship are paid by the foundations, not by Bouland & Brush. Disclosure of this information, BWFA's practice of referring to several estate planning attorneys or using the client's own attorney, along with BWFA's commitment to serve client interests with undivided loyalty, mitigates the potential for bias on the part of BWFA when it makes attorney referrals.

BWFA does not have any relationship or arrangement that is material to its advisory business or to BWFA's clients with any of the following: broker-dealer, municipal securities dealer, or government securities dealer or broker; investment company or other pooled investment vehicle; other investment advisor or financial planner; futures commission merchant, commodity pool operator, or commodity trading advisor; insurance company or agency; pension consultant; real estate broker or dealer; or sponsor or syndicator of limited partnerships.

Note: While BWFA utilizes TDA as custodian for much of its client assets, and while BWFA has a referral relationship program with TDA, TDA is not a related person/party of BWFA. BWFA is independent of TDA. See Item 12.A(4)(a), page 21 and Item 14.B(1), page 26 for a description of the TDA AdvisorDirect referral relationship program and the potential conflict of interest it could present.

- D. ***Other Investment Advisors.*** BWFA receives no compensation directly or indirectly from other investment advisors, nor does it have business relationships with other advisors that create material conflicts of interest.

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

- A. ***Code of Ethics.*** BWFA has adopted policies to ensure that investment and trading activities of its individual advisors do not conflict with the interest of BWFA's clients. These rules are pursuant to SEC rule 204A-1 and are summarized in this

section. The principal owner and the employees of BWFA believe the successful advisor/client relationship requires both advisors and clients to be open with one another in a way that minimizes the opportunities for surprises and misunderstandings. Accordingly, BWFA's obligations include:

- Identifying both the advantages and disadvantages of recommendations BWFA makes to its clients in the course of fulfilling its advisory duties
- Identifying to clients any conflicts of interest that might exist within the BWFA/client relationship
- Specifically pointing out to clients any issues that might reasonably confuse clients or cause concern

BWFA's service agreement is written with this in mind, and is intended to be clear, concise and complete in every respect.

BWFA considers its Code of Ethics applicable to all of its clients, including those who hire BWFA for Financial Planning Services, Investment Management Services, Tax Services, and/or Business Services. Accordingly, BWFA has adopted the broad Code of Ethics defined by the National Association of Personal Financial Advisors organization (NAPFA). This Code of Ethics, which may be found in its entirety at NAPFA's website <http://www.napfa.org/about/CodeofEthics.asp>, demands a high level of objectivity, confidentiality, competence, fairness, integrity, honesty, and professionalism.

In addition to the NAPFA Code of Ethics, BWFA has its own Code of Ethics for all supervised persons of the firm that describes its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts, and personal securities trading procedures, among other things. It is BWFA's policy that each employee serves client interests in a manner that is consistent with the basic fiduciary principals of undivided loyalty, obedience, confidentiality, reasonable care and skill, full disclosure, and full accounting. All supervised persons at BWFA must acknowledge the terms of the Code of Ethics annually, or as amended. BWFA's clients or prospective clients may request a complete copy of the Advisor's Code of Ethics by contacting BWFA at 410-461-3900.

- B. *Participation or Interest in Client Transactions.*** BWFA (and its related persons/parties) does not recommend to clients, nor buy nor sell for client accounts, securities in which the Advisor or a related person/party has a material financial interest. BWFA does not sell, recommend, or manage securities that are not listed on major public securities exchanges. BWFA believes that the risk associated with dealing in non-exchange-traded securities is inappropriate for the clients BWFA serves. Utilizing only securities that are listed on public securities exchanges lessens the opportunity for trading abuses.

- C. *Personal Trading, Securities.*** BWFA, the corporation, does not invest in the same securities as its clients. However, BWFA encourages its advisors to invest their own personal funds in the same securities as their clients. Nevertheless, opportunities for conflicts of interest can arise when advisors and clients invest in the same securities. Accordingly, BWFA has adopted policies that minimize the possibility that a client might be disadvantaged because an advisor bought, sold, or held the same security as a client.

Trading volume has a greater influence on the market price of a security of a small company than it has on the market price of a security of a large company. Therefore, trades in small companies require special attention to ensure a client is not disadvantaged when an advisor owns the same security. Accordingly, BWFA's chief investment officer must give prior written approval for each personal trade an advisor wishes to execute involving a small company security (market capitalization under \$1 billion) that is on BWFA's buy/sell/hold list.

- D. *Personal Trading, Timing.*** BWFA advisors are prohibited from the activity known as "front running," a practice where advisors place trades (buys or sells) for their own accounts in advance of a large "block" of trades being placed for client accounts. This would be done by an advisor in hopes of benefiting personally from the potential change in the price of the security as a result of the block trade. See Item 12.B, page 22 for a discussion of block trades. In order to remove this potential conflict of interest, BWFA has established a policy whereby trades for employees must be included with any block trades made on the same day in the same security. All accounts in the block receive an identical average execution price and the broker's applicable trade commission rate.

Advisors at BWFA are encouraged to hold their own personal investments at the same custodian that holds BWFA client investments – currently TD Ameritrade (TDA) – so that BWFA's chief compliance officer (CCO) can easily review advisors' trading activity. If an advisor holds investments outside TDA, s/he is required to provide BWFA's CCO with information that allows the CCO to review the employee's trading activity at the end of each calendar quarter.

## **Item 12 – Brokerage Practices**

- A. *Broker-Dealer Selection Criteria.*** Registered investment advisors such as BWFA often utilize multiple broker-dealers to execute their clients' transactions. However, for reasons of simplicity and efficiency, BWFA chooses to primarily utilize only one broker-dealer.

Evaluation and Choice of Broker-Dealer. As early as 1991, BWFA evaluated the 4-5 deep discount brokers that it felt would be able to provide accurate and timely services to an independent Fee-Only financial advisor. After careful review, BWFA chose what has become the TD Ameritrade Institutional program, a division of TD

Ameritrade, Inc. to provide custody of client assets, trade execution, and clearance and settlement of transactions. As part of the evaluation process, BWFA considered two main criteria: best execution of trades, and quality of the broker's administrative services (see description below). It also weighed broker commission rates. BWFA chose TD Ameritrade (TDA) institutional customer program because it was able to provide the best balance of administrative services and best execution, along with reasonable commission rates. TDA is an SEC-registered broker-dealer, a member of the Financial Industry Regulatory Authority (FINRA), the Securities Investor Protection Corporation (SIPC), and National Futures Association (NFA). BWFA is completely independent and unaffiliated with TDA and its components.

1. Best Execution of Trades – BWFA defines best execution as: (1) timely trade execution, and (2) trade execution at prices that are as close as possible to the prevailing market price at the time the trade is placed. Under normal circumstances, trades submitted by BWFA to the broker should be executed within seconds of the submission. BWFA assumes responsibility for obtaining best execution on behalf of all of its clients.
2. Quality of Broker's Administrative Services – BWFA evaluated brokers on their ability to provide accurate and timely essential administrative services to BWFA on behalf of its clients. TDA provides BWFA with certain benefits in recognition of BWFA's valuable business relationship to TDA. The benefits that BWFA receives from TDA are limited to things that help BWFA serve its clients' needs and promote BWFA's business activities. TDA provides the following administrative services that may be of economic benefit to BWFA:
  - Ability to handle new account setups, asset transfers, client distributions, gifting, and tax reporting
  - Access to an electronic communications network for placing buy and sell transactions and for obtaining client account information
  - Daily electronic downloads of security pricing and transactions
  - Access to "block trading" (provides the ability to equitably aggregate and allocate the purchase or sale of a security for multiple client accounts – See Item 12.B, page 22 for a discussion of block trades)
  - Ability to charge client accounts for BWFA's investment management fees
  - Ability to provide information to Institutional Shareholder Services for proxy voting
  - Access to a trading desk
  - Provision of duplicate client statements and confirmations

In addition, though not currently utilized by BWFA, TDA offers:

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

- Access to certain institutional money managers

The benefits received by BWFA as outlined above are not dependent on the quantity of brokerage transactions directed to TDA by BWFA. Even though BWFA receives certain economic benefits from utilizing TDA to service its clients' custody and brokerage needs, the investment advice BWFA gives to its clients is in no way linked to BWFA's choice to utilize TDA.

BWFA periodically reviews the suitability of TDA and to date has found that TDA continues to provide the best overall value for BWFA clients. In keeping with its AdvisorDirect agreement with TDA, however, BWFA makes no independent determination as to which custodian/broker is most suitable when the client has been referred to BWFA through the TDA AdvisorDirect program. See Item 14.B(1), page 26 for a description of the AdvisorDirect referral program.

### 3. Research and Other Soft Dollar Benefits

- Soft Dollar Benefit* – BWFA does not currently participate in any soft dollar agreement. A soft dollar agreement between an advisor and a broker such as TDA would permit the advisor to obtain investment research services with funds allocated to the advisor based on purchases and sales of securities in its clients' accounts. Prior to September 1, 2010, BWFA had a soft dollar agreement with TDA entitling BWFA to 15% of all brokerage commissions paid to TDA by BWFA clients. BWFA used these soft dollars to purchase investment research from firms other than TDA. This soft dollar agreement did not increase commission rates paid by BWFA clients at TDA.
- Research Benefit* – Rather than participating in a soft dollar agreement, BWFA and TDA have entered into an "Additional Services" agreement that helps defray the cost of investment research that BWFA obtains. Under this agreement, TDA annually pays a portion of BWFA's expenses directly to specific investment research firms for services that BWFA uses: (1) Bloomberg L.P. (2) Morningstar Select Institutional Equity Research, (3) Grant's Interest Rate Observer, and (4) Standard & Poor's Market Scope Advisor. This agreement does not have any effect on the commission rates TDA charges BWFA's clients. All of BWFA's Investment Management, Financial Planning, Tax, and Business Services clients benefit to some extent from the investment research performed by BWFA (and partially paid for by the TDA research benefit), whether or not these clients hold accounts at TDA. TDA provides this service to BWFA at its own discretion and at its own expense. BWFA does not pay any fees to TDA for this service. TDA may or may not offer this service to any other independent investment advisors. BWFA



and TDA have entered into a separate agreement (“Additional Services Addendum”) to govern the terms of the additional services provided.

- c. *Conflict of Interest* – Clients should be aware of potential conflicts of interest that could arise between BWFA and its clients as a result of the BWFA/TDA “Additional Services” agreement that helps defray BWFA’s research costs. In providing additional services to BWFA, TDA most likely considers the amount and profitability to TDA of the assets in, and trades placed for, BWFA’s client accounts maintained with TDA. TDA has the right to terminate the Additional Services Addendum with BWFA, provided certain conditions are met. Consequently, in order to continue obtaining the additional services from TDA, BWFA may have an incentive to continue to:

- place trades for client accounts with TDA, and
- recommend that clients custody their assets with TDA

Nevertheless, BWFA feels that this agreement does not constitute a material conflict of interest because the amount of the research benefit paid by TDA is only a small percentage of BWFA’s income and expenses. In addition, BWFA’s receipt of additional services does not diminish BWFA’s duty to act in the best interests of its clients, including seeking best execution of trades for client accounts. BWFA endeavors under all circumstances to operate in an open and transparent way with its clients, and place the interests of its clients above all other considerations. (See Item 11– Code of Ethics, page 16)

4. Brokerage for Client Referrals BWFA routinely directs virtually all client transactions to TDA,(except for those in managed retirement accounts or annuities held at custodians other than TDA). BWFA does not use outside brokers (brokers other than TDA) in return for client referrals. BWFA does participate with TDA in a client referral program called AdvisorDirect. As part of this program, BWFA compensates TDA for client referrals. See Item 14.B(1), page 26 for a description of the referral program, including compensation. This referral arrangement has no effect on the fees BWFA charges its clients.

- a. *Conflict of Interest* – All clients should be aware that a potential conflict of interest results from BWFA’s participation in the AdvisorDirect program. Specifically, BWFA may be biased toward continuing to use TDA as the custodian and broker for BWFA’s clients in order to obtain the benefit of client referrals from TDA. In addition, BWFA has agreed not to solicit TDA-referred clients to transfer their accounts from TDA or to establish brokerage or custody accounts at other custodians, except when BWFA’s fiduciary

duties require doing so. Nevertheless, BWFA's first obligation and responsibility is always to its clients and to acting in ways that best meet clients' needs.

- b. *Last Fiscal Year's Procedure* – During BWFA's last fiscal year, it directed to TDA all client transactions for accounts held at TDA.

5. Directed Brokerage

- a. *Procedure* – Although a registered investment advisor, such as BWFA, may choose to execute trades through more than one broker, for reasons of efficiency and simplicity, BWFA routinely directs virtually all of the trades it executes on behalf of clients to TDA. Because BWFA directs brokerage, it is possible that BWFA may not achieve most favorable execution of client transactions and that its practice may cost clients more money. However, BWFA feels that the potential increased cost to clients is relatively negligible and does not warrant dealing with multiple brokers. In addition, advances in electronic trading markets have significantly narrowed price variations between exchange-listed securities traded by different brokers, so most market participants get very competitive prices. BWFA is not affiliated with TDA and does not have any economic relationship that creates a material conflict of interest. [See potential conflicts of interest discussed above in Item 12.A(3)(c), page 21, and 12.A(4)(a), page 21.]

Though BWFA directs virtually all of its trades through TDA, on rare occasions BWFA may direct trades to brokers other than TDA (known as "trade aways.") BWFA does this when it determines that it can get better prices for securities bought or sold outside of TDA. BWFA recognizes that TDA will charge additional fees to process "trade aways." When a client comes to BWFA as a TDA referral, the BWFA/TDA AdvisorDirect agreement prohibits BWFA from directing the client's assets to a broker other than TDA (except when BWFA's fiduciary responsibility overrides).

- b. *Client-Directed Brokerage* – BWFA does not permit a client to direct brokerage.

- B. **Trade Aggregation.** BWFA may aggregate the purchase or sale of securities for client accounts in "block trades," a practice whereby BWFA places one or several client trades in an aggregated block account where they can be executed as a single unit. Once executed, BWFA then divides the trades in the block account among the participating client accounts. When BWFA uses block trades, all client accounts participate in the trade at an identical average price per share and each client pays the standard commission rate of the custodian. BWFA uses block trades at times when:

- It is more efficient for BWFA advisors/portfolio managers
- There is a possible cost benefit to clients
- It will result in a faster execution that may benefit clients

BWFA may choose not to include some client accounts in block trades when:

- A security's price may be adversely affected by increasing the volume of a trade
- A client's account does not have adequate cash at the time of the block purchase
- The portfolio manager needs additional time to consider a client's account restrictions or special instructions/circumstances
- The portfolio manager believes it may not be in the best interest of the client to acquire or sell a security at the time of the block trade

When BWFA purchases or sells a security for a client outside of a block trade, the purchase or sale may be executed at a price higher or lower than that of other BWFA client accounts executed within the block trade. The custodian's commission rate remains the same whether the trade is executed within or outside of the block trade.

### **Item 13 – Review of Accounts**

**A. *Periodic Account Reviews.*** BWFA has two levels of account reviews. The first level is at the security/investment level, and the second level is at the account/client level. Each is explained below.

1. Security/Investment Level Review - BWFA maintains a buy/sell/hold list of approximately 60-80 individual securities. These securities are entered into BWFA's proprietary Client Activity Tracking System (CATS), where BWFA records information about each security, including BWFA's rationale for buying, holding, or selling the security. Information in CATS includes fundamental, technical, competitive, financial, and other information about the security, industry, or market environment that influences our judgment to buy, sell, or hold the investment. The investment analyst periodically updates security records in CATS with relevant information and distributes updates electronically to portfolio managers and others within the firm. Information on individual securities remains available in CATS for reference by any member of BWFA's staff. Portfolio managers use this information to select investments for their clients. See Item 4.B(2), page 3 for additional information on BWFA's buy/sell/hold list.

The Investment Committee, consisting of (at least) the chief investment officer, all portfolio managers, the director of planning, the investment analyst, and the investment operations manager, meets weekly to discuss updates to securities in CATS and other relevant market, economic, and investment matters. Securities are monitored daily via a Bloomberg terminal for relevant issues that might affect BWFA's decision to buy/sell/hold a security.

2. Client/Account Level Review

- a. *Portfolio Reviews* – Advisors/Portfolio managers at BWFA are responsible for conducting client/account reviews on a periodic basis. The main purpose of such reviews is to ensure that cash is properly invested, and that each client's investments are allocated in accordance with the investment model applicable to each client. [See Item 4.C(1), page 5 for a discussion of BWFA's use of investment models.]

Each client's portfolio undergoes a comprehensive review each year. As part of this comprehensive annual review the advisor/portfolio manager sends each client a written communication confirming:

- The model BWFA is using to manage the client's portfolio
- Any restrictions or special instructions the client has placed on his/her investments
- The details of any recurring income distributions being made from any of the client's accounts
- An alert about Required Minimum Distributions (for IRAs), if appropriate
- Information about the client's annual Financial Plan Review, if appropriate

In addition, each taxable portfolio undergoes an annual review to determine if there are opportunities to reduce a client's tax liability, based on individual circumstances and securities held. This tax review takes place in the 4<sup>th</sup> quarter of each year.

- b. *Financial Plan Reviews* – A member of BWFA's financial planning team conducts Financial Plan Reviews as outlined in Item 4.B(1)(d), page 2.

**B. *Non-Periodic Reviews.*** Reviews that occur on other than a periodic basis may be triggered by a number of events, including:

- A change in the economic or market outlook
- A change in the outlook for an individual investment held in a client account
- A significant deposit
- A client request for a cash distribution
- A change in the income distribution amount being sent to the client
- A significant change in the client's circumstances

An account is also reviewed when the advisor/portfolio manager is determining whether the client should be included in an upcoming block trade.

A new account having securities that are not followed by BWFA on a consistent basis undergoes a portfolio review within 90 days after BWFA assumes responsibility for managing the client's funds. (Generally securities not followed by BWFA are sold within one year.) A new account review helps the advisor/portfolio manager ensure that holdings are appropriate for the client's situation and goals.

**C. *Client Reports.*** BWFA maintains a portfolio accounting system that contains all transactions and account details, including tax cost basis, pertaining to every client account. Reports provided to clients have been designed to be clear, concise, and complete. BWFA's reports to its clients, along with trade confirmations and detailed monthly statements received by clients from the custodian, enable clients to easily monitor their investments, fees, and investment performance. Each type of report provided by BWFA is described below:

1. Portfolio Statement – This quarterly written report shows every investment the client owns, as well as the quantity, cost, current market value, unrealized gains and losses, the income/dividend yield on the security, and other relevant data. The securities are listed and grouped together in the same order as in the client's investment model, so it is easy for clients to verify that BWFA is managing the portfolio according to the model chosen by the client.
2. Portfolio Performance Summary Statement – This quarterly written report shows the current year's beginning value and the year-to-date figures for additions to and withdrawals from the portfolio, income earned, capital appreciation or loss (realized and unrealized), all management fees paid to BWFA, the account value at the end of the quarter being reported, and the year-to-date investment return. This report allows clients to determine how their investments have performed over the period covered by the report. Performance calculations are based on industry standard time-weighted calculations. Returns are calculated after fees.
3. Investment Management Invoice – Clients receive a quarterly written invoice that details the calculations used to compute the quarterly management fee. It also shows how the fee is allocated among the client's accounts.
4. Letter to Clients – BWFA publishes a letter to clients each quarter. The letter typically provides a summary of the influences and market activity of the previous quarter, a discussion of current economic and market conditions, and BWFA's outlook for the coming period. The letter attempts to provide clients with an understanding of the thinking that will guide BWFA's investment strategy in the coming period.
5. Annual Realized Capital Gains and Loss Statement – This annual written statement contains details needed to prepare federal and state income tax returns.

In addition to BWFA reports and statements, clients also receive individual trade confirmations and monthly account statements from the custodian. Detailed monthly account statements include a portfolio summary and a listing of account positions and activity. BWFA recommends that clients compare statements provided by BWFA with statements provided by the custodian, currently TD Ameritrade (TDA) (see Item 15, page 27). Clients can receive their written TDA statements through the mail and/or obtain account information from the custodian's website.

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

**A. *Economic Benefit from Non-Client for Advisory Services.*** As a Fee-Only advisor, BWFA only receives compensation directly from its clients for the services it provides to them. [See Item 12.A(3)(b), page 20] BWFA does not sell insurance products nor earn commissions from buy and sell transactions (as does a broker-dealer). This practice allows BWFA's advisors to offer objective and unbiased recommendations to clients. It avoids the inherent conflicts of interest that exist when a firm receives compensation or economic benefit from a non-client source for providing services to its clients.

**B. *Compensation for Client Referrals.***

1. BWFA has a client referral program for its employees whereby employees who are registered investment advisors, but who do not have discretionary authority over client funds, may be eligible to receive compensation for referrals to the firm of prospective clients who become BWFA investment management clients. BWFA pays referring employees 20% of the client's first four quarterly advisory fees paid to BWFA. This referral fee does not increase the fees paid by the client to BWFA. BWFA charges its standard advisory fees irrespective of whether or not the client was referred to BWFA by an employee. Nevertheless, this program presents a potential conflict of interest, as the employee has a financial incentive to refer a prospective client.
2. BWFA participates with TD Ameritrade (TDA) in a client referral program called AdvisorDirect. BWFA was accepted into TDA's AdvisorDirect program because BWFA met or exceeded TDA's minimum eligibility criteria for participation. The fact that BWFA relies exclusively on Fee-Only compensation from its clients was one such required standard. In addition, BWFA may have been selected to participate in the referral program based on the amount and profitability to TDA of the assets in, and trades placed for, client accounts maintained with TDA. BWFA participates in the TDA AdvisorDirect program as an independent and unaffiliated investment advisor. BWFA does not have any employment or agency relationship to TDA.

As part of the AdvisorDirect program, BWFA compensates TDA for client referrals. For referrals of individuals that become or became clients on or after July 1, 2010, BWFA pays TDA 25% of the BWFA investment management &/or financial planning fees charged to the referred client. For referrals that became clients before July 1, 2010, the referral fee paid to TDA is 15% of the BWFA advisory fees. These referral fees also apply to accounts of immediate family members who are subsequently referred to BWFA by the original TDA-referred client. Immediate family members include spouses, children, or any other family member who resides with the referred client and who hired BWFA on the recommendation of the referred client. The minimum referral fee paid to TDA for all referred clients under the AdvisorDirect program is \$10,000 per calendar

- year. These referral fees do not increase the fees paid by the client to BWFA. BWFA charges its standard advisory fees irrespective of whether or not the client was referred to BWFA by TDA. Additional information regarding fees paid to TDA may be found on the TDA AdvisorDirect Disclosure and Acknowledgement Form that all TDA-referred individuals sign before becoming BWFA clients.
3. BWFA may have agreement(s) with one or more other third parties to solicit clients on its behalf. In cases where a referred prospective client becomes an investment management client, BWFA pays the third-party solicitor a percentage of its advisory fees. This referral fee does not increase the fees paid by the client to BWFA. BWFA charges its standard advisory fees irrespective of whether or not the client was referred to BWFA by a third party. Nevertheless, solicitor agreements present a potential conflict of interest, as solicitors have a financial incentive to refer prospective clients.
  4. As a thank you, BWFA occasionally makes small personal gifts valued at under \$75 to clients, to friends of the firm, and to organizations when they refer individuals or organizations that become BWFA clients.

## **Item 15 – Custody**

BWFA does not take custody of client funds or securities. All client funds and securities are held at TD Ameritrade (TDA), in Aria annuities, or in clients' employer-sponsored retirement plans. Clients receive monthly statements from TDA, and (at least) quarterly statements from Aria and from employer-sponsored plans confirming transactions and security positions. Clients should carefully review these statements.

Though BWFA does not take custody of client funds, BWFA does have the ability to change client account addresses via TDA's website as well as through websites of some outside retirement accounts. All custodians notify clients whenever address changes are made, with advice being sent to both the old and the new addresses, so clients are aware of the change.

BWFA mails statements quarterly to clients (see Item 13.C, page 25) and encourages clients to compare BWFA statements to custodian statements. BWFA recommends on the bottom of each BWFA quarterly invoice, "Please compare the information set forth in this statement with the statements you receive directly from TD Ameritrade and other custodians to ensure that all account transactions and balances are proper."

## **Item 16 – Investment Discretion**

There are two situations where investment discretion is a consideration at BWFA. The first situation exists when we have an agreement to prepare a financial plan for a client, and the

second situation exists when we have an agreement to manage investments for a client. Each is explained below.

- A. *Financial Plan*** – When we prepare a financial plan for a client, a section of the plan contains our recommendations as to how a client should allocate his/her investments among different types of assets. This recommendation is made based on our judgment about many things, including the client's situation, his/her lifestyle goals and needs, our perception of returns available in the financial markets in coming years, inflation, and our client's life expectancy. We use Monte Carlo simulation techniques to test the possible outcomes (success rates) of the plan that we recommend, and then incorporate our investment allocation recommendations within the financial plan.

When BWFA makes investment recommendations as part of a financial plan, it is providing clients with guidelines for how they could allocate their investments. Clients are free to implement BWFA's recommendations or reject them and invest their assets as they choose. BWFA provides no ongoing oversight or management of a client's investments in this situation.

Even though BWFA exercises no ongoing oversight or management of client investments in this situation, we send these financial planning clients notices and recommend that they return to BWFA every year for a Financial Plan Review meeting. Included in the cost of our Pre-Retirement Plan, Retirement Plan, and Estate Plan – Phase 1 are two annual Financial Plan Reviews [see Item 5.A(1), page 7, and Item 5.B(1)(a), page 9.] At review meetings, a member of BWFA's financial planning team reviews the client's current situation and updates any investment recommendations, as appropriate. However, in this situation BWFA does not exercise any direct investment discretion over the client's investments.

- B. *Managed Investments*** – If a client engages BWFA to provide investment management service as indicated on the BWFA Service Agreement, BWFA then exercises full discretion over the investment accounts designated by the client. BWFA's Investment Management Agreement clearly states that BWFA will exercise full discretion over investment decisions. This means that BWFA selects the type and quantity of securities to be bought and sold. In all cases, however, such discretion is exercised in a manner consistent with the client-selected investment model. In addition to executing BWFA's Service Agreement, each client completes account forms provided by the custodian (currently TD Ameritrade), on which each client indicates by initials that s/he is providing BWFA with a limited power of attorney for full investment discretion. In rare instances, BWFA might agree to have a non-discretionary relationship with a client, in which case the client makes his own investment decisions and directs BWFA to execute trades.

1. Restrictions or Special Instructions – Clients may place restrictions on certain securities or provide special instructions regarding their investments. See Item 4.C(3), page 6 for a full discussion of restrictions and special instructions.



2. When Client Instructions Differ from BWFA's Recommendations – BWFA has full discretionary authority to manage its clients' investments in a manner it believes is most beneficial for its clients. That said, however, it is BWFA's practice to follow the direction of its clients in those uncommon situations where clients direct BWFA to handle their investments in a way that is inconsistent with BWFA's recommendations. In these rare situations, BWFA emphasizes to its clients that it is the clients' responsibility to tell BWFA when they want BWFA to resume exercising full discretionary authority.

For example, if a client directs BWFA to hold 50% of his/her investments in cash, and this direction conflicts with BWFA's current investment recommendations, BWFA will follow the client's direction and hold 50% of the client's investments in cash. BWFA will continue to hold 50% of the client's investments in cash until the client directs BWFA to resume exercising BWFA's full discretion.

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

BWFA assumes authority to vote security proxies for its clients. To assist in this regard, BWFA utilizes the services of Institutional Shareholder Services (ISS). ISS considers independent research and analysis of company management, boards of directors, and proposals to shareholders, and then votes shareholder proxies on behalf of, and in the best interest of, BWFA's clients.

ISS enables BWFA and its clients to participate effectively in the proxy voting process by:

- Providing thoughtful in-depth analysis of complex proxy proposals
- Providing informed voting recommendations
- Maintaining cost effective operational procedures enabling BWFA and others to execute large numbers of client/shareholder votes
- Allowing more shareholders to participate in the voting process by making the voting process more efficient and easier to execute

BWFA encourages all of its investment management clients with portfolios containing individual securities to assign their proxy voting rights to BWFA. However, clients may opt out and vote their own securities. Once BWFA assumes the authority to vote a client's securities, the client does not have the option of directing a vote in a particular solicitation. Clients may, however, find out how their securities were voted by contacting their BWFA advisor.

By utilizing an independent company such as ISS to vote client proxies, BWFA has sought to minimize possible conflicts of interest between BWFA and its clients with respect to voting client securities. BWFA assumes responsibility for voting proxies for its clients in accordance with the recommendations, procedures, and policies of ISS. A copy of ISS's

Policy Summary and BWFA's proxy voting policies and procedures will be made available to any client upon request.

A separate proxy voting service fee of \$10 per quarter (\$40 per year) is charged to investment management clients who are invested primarily in individual securities. Only one quarterly fee per client is charged, regardless of the number of accounts held. See Item 5.C(1), page 10 – Proxy voting services.

## **Item 18 – Financial Information**

Registered investment advisors are required in this item to provide certain financial information or disclosures about their financial condition.

- A. **Balance Sheet.** N/A – BWFA does not require nor solicit prepayment of client fees six months or more in advance, and so is not required to include a balance sheet here.
- B. **Financial Condition.** BWFA has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients.
- C. **Bankruptcy.** BWFA has never been the subject of a bankruptcy proceeding.

BWFA recognizes that clients have a significant interest in the financial condition of their advisor. Accordingly, BWFA will discuss specifics of its financial condition with any client who makes such a request.

## Brochure Supplements

### Item 1- Cover Page

Richard Saxon Birdsong  
Consultant

Baltimore-Washington Financial Advisors, Inc.

5950 Symphony Woods Road, Suite 600  
Columbia, MD 21044

410-461-3900  
[www.bwfa.com](http://www.bwfa.com)

December 31, 2012

**This brochure supplement provides information about R. Saxon Birdsong that supplements the BWFA Brochure to which it is attached. Please contact our office if you have any questions about the contents of this supplement. Additional information about R. Saxon Birdsong is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

### Item 2- Educational Background and Business Experience

R. Saxon Birdsong (Saxon) was born in 1944. He graduated from The College of William and Mary in Williamsburg, Virginia with a B.A. degree in Business Science. He then attended Loyola College in Baltimore, Maryland, where he obtained an MBA in Finance & Accounting.

Saxon served as an engineering officer in the US Army for four years. He later launched his career in the financial services industry working for First National Bank of Maryland for 12 years, managing their Cash Management and Trust & Investment operations. Following his banking career, he was a senior consulting manager for five years with the accounting firm of Deloitte, Haskins and Sells, responsible for the firm's financial services industry consulting practice in the Boston to New York markets. Saxon started a Fee-Only financial planning practice in Ellicott City in 1990 before joining with others six years later to form BWFA as a Fee-Only advisory firm. Saxon served as president and chief investment officer of BWFA

from 1996 to 2012. He currently works as a consultant for BWFA, assisting with investment strategy.

### **Item 3- Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of each supervised person providing investment advice. No information is applicable to this item for Saxon.

### **Item 4- Other Business Activities**

- A. Saxon is not actively engaged in any investment-related business or occupation outside of BWFA. He is not registered, nor does he have an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant (FCM), commodity pool operator (CPO), commodity trading advisor (CTA), or an associated person of an FCM, CPO, or CTA.
- B. All of Saxon's professional time is devoted to BWFA and to serving client needs. He is not actively engaged in any other business or occupation for compensation that provides a source of income or involves a substantial amount of his time.

### **Item 5- Additional Compensation**

Saxon does not receive economic benefit from any non-client source for providing advisory services. As a Fee-Only advisor dedicated to providing objective service and advice, BWFA does not accept, nor permit its professionals to accept, commissions, sales awards, or other prizes beyond their normal BWFA salaries. This helps avoid conflicts of interest, and allows Saxon to always act in clients' best interests.

### **Item 6 - Supervision**

As a consultant for BWFA, Saxon works under the supervision of BWFA's president, Robert Carpenter. He assists with formulating BWFA's investment strategy, and does not have day to day responsibility for managing individual client portfolios. BWFA's Chief Compliance Officer, Robert Cassel, 410-461-3900, annually reviews aspects of Saxon's work to ensure compliance with securities laws, rules, and regulations.

**Item 1- Cover Page**

**Joseph Anthony Caputo  
Associate Portfolio Manager  
Baltimore-Washington Financial Advisors, Inc.**

**5950 Symphony Woods Road, Suite 600  
Columbia, MD 21044**

**410-461-3900  
www.bwfa.com**

**December 31, 2012**

**This brochure supplement provides information about Joseph A. Caputo that supplements the BWFA Brochure to which it is attached. Please contact our office if you have any questions about the contents of this supplement. Additional information about Joseph A. Caputo is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Item 2- Educational Background and Business Experience**

Joseph A. Caputo (Joe) was born in 1980. He graduated from Frostburg State University in Frostburg, Maryland, with a Bachelor of Science degree in political science.

Prior to joining BWFA in 2012 as an associate portfolio manager, Joe worked for five years as a sales compliance specialist for Wells Fargo Advisors (formerly Wachovia Securities) in Baltimore, Maryland. Previous to that in 2006 - 2007, Joe served as a retirement planning consultant for T. Rowe Price.

**Item 3- Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of each supervised person providing investment advice. No information is applicable to this item for Joe.

**Item 4- Other Business Activities**

- A. Joe is not actively engaged in any investment-related business or occupation outside of BWFA. He is not registered, nor does he have an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission

merchant (FCM), commodity pool operator (CPO), commodity trading advisor (CTA), or an associated person of an FCM, CPO, or CTA.

- B. All of Joe's professional time is devoted to BWFA and to serving client needs. He is not actively engaged in any other business or occupation for compensation that provides a source of income or involves a substantial amount of his time.

### **Item 5- Additional Compensation**

Joe does not receive economic benefit from any non-client source for providing advisory services. As a Fee-Only advisor dedicated to providing objective service and advice, BWFA does not accept, nor permit its portfolio managers to accept, commissions, sales awards, or other prizes beyond their normal BWFA salaries. This helps avoid conflicts of interest, and allows Joe to always act in his clients' best interests.

### **Item 6 - Supervision**

Joe works under the supervision of BWFA's Director of Planning, Mark Stinson, 410-461-3900 and assists Mark in providing portfolio management services to BWFA's wealth accumulation clients. Joe's work for, and advice to, clients is monitored in several ways:

- All client portfolios are managed within the guidelines of client-chosen investment models. [See ADV Part 2A Item 4.C(1), page 5 for a discussion of BWFA's use of investment models.] The director of planning periodically reviews Joe's accounts to ensure that they are being managed according to model specifications.
- All written communication with clients is captured in BWFA's proprietary Client Activity Tracking System (CATS). Verbal advice to clients is also generally recorded in CATS. A sampling of Joe's communications with his clients is periodically reviewed by the director of planning.
- Joe performs a comprehensive annual portfolio review for each of his clients. [See ADV Part 2A Item 13.A(2)(a), page 24 for a discussion of portfolio reviews.] The director of planning monitors Joe's portfolio reviews.
- BWFA's chief investment officer maintains a buy/sell/hold list of securities. [See ADV Part 2A Items 4.B(2), page 3, and 13.A(1), page 23 for a discussion of the buy/sell/hold list.] As part of periodic reviews of Joe's accounts, the director of planning ensures that client holdings adhere to buy/sell/hold list recommendations.
- BWFA's Chief Compliance Officer, Robert Cassel, 410-461-3900, annually audits each aspect of Joe's work contained in the Item 6 bulleted points (immediately above) to ensure compliance with investment policies.

**Item 1- Cover Page**

**Robert Guy Carpenter  
President**

**Baltimore-Washington Financial Advisors, Inc.**

**5950 Symphony Woods Road, Suite 600  
Columbia, MD 21044**

**410-461-3900  
www.bwfa.com**

**December 31, 2012**

**This brochure supplement provides information about Robert G. Carpenter that supplements the BWFA Brochure to which it is attached. Please contact our office if you have any questions about the contents of this supplement. Additional information about Robert G. Carpenter is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Item 2- Educational Background and Business Experience**

Robert G. Carpenter (Rob) was born in 1965. He graduated from Hartwick College in Oneonta, New York with a B.A. in political science. He also holds a Wharton/SIA Branch Management Leadership Institute Certificate from the Wharton School at University of Pennsylvania.

Rob has worked in the financial services industry for over 23 years. Before joining BWFA, Rob was regional director of the mid-Atlantic region for Ameriprise Financial, Inc. Prior to that, he served as senior vice president and regional manager of the mid-Atlantic region for Wells Fargo Advisors (formerly Wachovia Securities). Earlier, he held the position of first vice president and complex manager in Maryland for the investment banking firm Stifel Nicolaus. Rob became BWFA's president in 2012, assuming responsibility for managing the firm.

### **Item 3- Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of each supervised person providing investment advice. No information is applicable to this item for Rob.

### **Item 4- Other Business Activities**

- A. Rob is not actively engaged in any investment-related business or occupation outside of BWFA. He is not registered, nor does he have an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant (FCM), commodity pool operator (CPO), commodity trading advisor (CTA), or an associated person of an FCM, CPO, or CTA.
- B. All of Rob's professional time is devoted to BWFA and to serving client needs. He is not actively engaged in any other business or occupation for compensation that provides a source of income or involves a substantial amount of his time.

### **Item 5- Additional Compensation**

Rob does not receive economic benefit from any non-client source for providing advisory services. As a Fee-Only advisor dedicated to providing objective service and advice, BWFA does not accept, nor permit its managers to accept, commissions, sales awards, or other prizes beyond their normal BWFA salaries. This helps avoid conflicts of interest, and allows Rob to always act in clients' best interests.

### **Item 6 - Supervision**

As president of BWFA, Rob is not supervised by other persons. He is responsible for managing the firm, and does not have day to day responsibility for managing individual client portfolios. BWFA's Chief Compliance Officer, Robert Cassel, 410-461-3900, annually reviews aspects of Rob's work to ensure compliance with securities laws, rules, and regulations.



**Item 1- Cover Page**

**Thad Joseph Ismart  
Financial Planner**

**Baltimore-Washington Financial Advisors, Inc.**

**5950 Symphony Woods Road, Suite 600  
Columbia, MD 21044**

**410-461-3900  
www.bwfa.com**

**February 25, 2013**

**This brochure supplement provides information about Thad J. Ismart that supplements the BWFA Brochure to which it is attached. Please contact our office if you have any questions about the contents of this supplement. Additional information about Thad J. Ismart is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Item 2- Educational Background and Business Experience**

Thad J. Ismart was born in 1975. He graduated from University of Maryland Baltimore County in Baltimore, Maryland, in 2005 with a Bachelor of Arts degree in economics. In 2010 he earned the designation of CERTIFIED FINANCIAL PLANNER™ professional (CFP®) from the CFP Board of Standards. A CFP® professional must meet certain education, examination, experience, and ethics requirements. As a CFP® professional, Thad:

- Mastered a wide a variety of topics on integrated financial planning
- Passed a 10-hour CFP Certification Examination
- Demonstrated extensive experience in the field of financial planning
- Was approved by the CFP Board (involving an extensive background check – including an ethics, character, and criminal check)
- Adheres to the CFP Board Code of Ethics and Professional Responsibility and to the Financial Planning Practice Standards
- Completes a minimum of 30 hours of continuing professional education every two years

Prior to joining BWFA in 2013, Thad worked for a year as a financial planner at Planning Solutions Group in Fulton, Maryland. He also worked as a financial advisor in 2011 for Merrill Lynch in Baltimore, Maryland. From 2007 to 2011 Thad was a financial planning associate at Morgan Stanley Smith Barney in Baltimore, Maryland. In addition, from 2005 to 2007 he served as a retirement specialist at T. Rowe Price in Owings Mills, Maryland.

### **Item 3- Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of each supervised person providing investment advice. No information is applicable to this item for Thad.

### **Item 4- Other Business Activities**

- A. Thad is not actively engaged in any investment-related business or occupation outside of BWFA. He is not registered, nor does he have an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant (FCM), commodity pool operator (CPO), commodity trading advisor (CTA), or an associated person of an FCM, CPO, or CTA.
- B. All of Thad's professional time is devoted to BWFA and to serving client needs. He is not actively engaged in any other business or occupation for compensation that provides a substantial source of income or involves a substantial amount of his time.

### **Item 5- Additional Compensation**

Thad does not receive economic benefit from any non-client source for providing advisory services. As a Fee-Only advisor dedicated to providing objective service and advice, BWFA does not accept, nor permit its professionals to accept, commissions, sales awards, or other prizes beyond their normal BWFA salaries. This helps avoid conflicts of interest, and allows Thad to always act in his clients' best interests.

### **Item 6 - Supervision**

Thad works under the supervision of BWFA's Director of Planning, Mark Stinson, 410-461-3900. Thad does not have discretionary authority over client investments. However, as part of his work as a financial planner, he meets with clients and offers investment recommendations in the context of the financial plans he prepares for them. His work for, and advice to, clients is monitored in several ways:

- All written communication with clients is captured in BWFA's proprietary Client Activity Tracking System (CATS). Verbal advice to clients is also generally recorded in CATS. A sampling of Thad's communications with his clients is periodically reviewed by the director of planning.
- Financial plans prepared by Thad, which may contain investment recommendations, are reviewed by the director of planning before their presentation to clients.

**Item 1- Cover Page**

**John Christopher Kelly  
Financial Advisor & Portfolio Manager  
Baltimore-Washington Financial Advisors, Inc.**

**5950 Symphony Woods Road, Suite 600  
Columbia, MD 21044**

**410-461-3900  
www.bwfa.com**

**December 31, 2012**

**This brochure supplement provides information about J. Christopher Kelly that supplements the BWFA Brochure to which it is attached. Please contact our office if you have any questions about the contents of this supplement. Additional information about J. Christopher Kelly is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Item 2- Educational Background and Business Experience**

J. Christopher Kelly (Chris) was born in 1975. He attended Allegany College in Cumberland, Maryland for one year and then transferred to University of Maryland, College Park, graduating in 1996 with a B.S. in Finance. In 2002 he received a Master of Accountancy degree from George Washington University in Washington, DC. He later earned the designations of:

- **CERTIFIED FINANCIAL PLANNER™ professional (CFP®)** from the CFP Board of Standards in 2009. A CFP® professional must meet certain education, examination, experience, and ethics requirements. As a CFP® professional, Chris:
  - Mastered a wide a variety of topics on integrated financial planning
  - Passed a 10-hour CFP Certification Examination
  - Demonstrated extensive experience in the field of financial planning
  - Was approved by the CFP Board (involving an extensive background check – including an ethics, character, and criminal check)
  - Adheres to the CFP Board Code of Ethics and Professional Responsibility and to the Financial Planning Practice Standards
  - Completes a minimum of 30 hours of continuing professional education every two years

- **Certified Public Accountant (CPA)** from the Virginia Board of Accountancy in 2009.

As a CPA, Chris:

- Completed a minimum of 150 qualifying credit hours in accounting, business, and ethics
- Passed the rigorous four-part Uniform Certified Public Accountant Examination
- Completed a specific ethics course
- Gained a minimum of one year of accounting-related work experience
- Adheres to strict ethical and professional standards
- Completes a minimum of 120 hours of continuing professional education every 3 years

Prior to joining BWFA in 2009 as a financial advisor and portfolio manager, Chris worked for three years as a financial associate for the accounting firm Lydon Fetterolf Corydon, P.A., in Rockville, MD. Previous to that Chris served high net worth individuals as a private client advisor in the accounting firm Deloitte & Touche. Furthermore, beginning in 2001, Chris worked as a lead financial specialist for ICMA Retirement Corp. in Washington, DC.

### **Item 3- Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of each supervised person providing investment advice. No information is applicable to this item for Chris.

### **Item 4- Other Business Activities**

- C. Chris is not actively engaged in any investment-related business or occupation outside of BWFA. He is not registered, nor does he have an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant (FCM), commodity pool operator (CPO), commodity trading advisor (CTA), or an associated person of an FCM, CPO, or CTA.
- D. All of Chris' professional time is devoted to BWFA and to serving client needs. He is not actively engaged in any other business or occupation for compensation that provides a source of income or involves a substantial amount of his time.

### **Item 5- Additional Compensation**

Chris does not receive economic benefit from any non-client source for providing advisory services. As a Fee-Only advisor dedicated to providing objective service and advice, BWFA does not accept, nor permit its portfolio managers to accept, commissions, sales awards, or other prizes beyond their normal BWFA salaries. This helps avoid conflicts of interest, and allows Chris to always act in his clients' best interests.

## **Item 6 - Supervision**

Chris works under the supervision of BWFA's Chief Investment Officer & Senior Portfolio Manager, Robert Williams, 410-461-3900. Chris' work for, and advice to, clients is monitored in several ways:

- All client portfolios are managed within the guidelines of client-chosen investment models. [See ADV Part 2A Item 4.C(1), page 5 for a discussion of BWFA's use of investment models.] The chief investment officer & senior portfolio manager periodically reviews Chris' accounts to ensure that they are being managed according to model specifications.
- All written communication with clients is captured in BWFA's proprietary Client Activity Tracking System (CATS). Verbal advice to clients is also generally recorded in CATS. A sampling of Chris' communications with his clients is periodically reviewed by the chief investment officer & senior portfolio manager.
- Chris performs a comprehensive annual portfolio review for each of his clients. [See ADV Part 2A Item 13.A(2)(a), page 24 for a discussion of portfolio reviews.] The chief investment officer & senior portfolio manager monitors Chris' portfolio reviews.
- BWFA's chief investment officer maintains a buy/sell/hold list of securities. [See ADV Part 2A Items 4.B(2), page 3, and 13.A(1), page 23 for a discussion of the buy/sell/hold list.] As part of periodic reviews of Chris' accounts, the chief investment officer & senior portfolio manager ensures that client holdings adhere to buy/sell/hold list recommendations.
- BWFA's Chief Compliance Officer, Robert Cassel, 410-461-3900, annually audits each aspect of Chris' work contained in the Item 6 bulleted points (immediately above) to ensure compliance with investment policies.

**Item 1- Cover Page**

**Robert Franklin Ray**  
**Financial Advisor & Portfolio Manager**  
**Baltimore-Washington Financial Advisors, Inc.**

5950 Symphony Woods Road, Suite 600  
Columbia, MD 21044

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www.bwfa.com

December 31, 2012

**This brochure supplement provides information about Robert F. Ray that supplements the BWFA Brochure to which it is attached. Please contact our office if you have any questions about the contents of this supplement. Additional information about Robert F. Ray is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Item 2- Educational Background and Business Experience**

Robert F. Ray (Bob) was born in 1949. He received a B.S. Degree in Economics from Hampden-Sydney College in Hampden-Sydney, Virginia. He then obtained an MBA in Finance and Investments from George Washington University in Washington, DC. Bob started his investment career at The First National Bank of Maryland (which later became Allfirst Bank). He spent 26 years at Allfirst and was senior vice president and manager of the Treasury Funds Management Group. Bob joined BWFA as a financial advisor and portfolio manager in 2002.

**Item 3- Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of each supervised person providing investment advice. In 2002, in his previous position as a senior vice president with a local bank, Bob supervised an employee who was found to have defrauded the bank. There were no findings of fraudulent activities by Bob, and there was no monetary penalty imposed on him. BWFA does not believe that this action is material to Bob's work as a financial advisor and portfolio manager with BWFA.

#### **Item 4- Other Business Activities**

- A. Bob is not actively engaged in any investment-related business or occupation outside of BWFA. He is not registered, nor does he have an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant (FCM), commodity pool operator (CPO), commodity trading advisor (CTA), or an associated person of an FCM, CPO, or CTA.
- B. All of Bob's professional time is devoted to BWFA and to serving client needs. He is not actively engaged in any other business or occupation for compensation that provides a source of income or involves a substantial amount of his time.

#### **Item 5- Additional Compensation**

Bob does not receive economic benefit from any non-client source for providing advisory services. As a Fee-Only advisor dedicated to providing objective service and advice, BWFA does not accept, nor permit its portfolio managers to accept, commissions, sales awards, or other prizes beyond their normal BWFA salaries. This helps avoid conflicts of interest, and allows Bob to always act in his clients' best interests.

#### **Item 6 - Supervision**

Bob works under the supervision of BWFA's Chief Investment Officer & Senior Portfolio Manager, Robert Williams, 410-461-3900. Bob's work for, and advice to, clients is monitored in several ways:

- All client portfolios are managed within the guidelines of client-chosen investment models. [See ADV Part 2A Item 4.C(1), page 5 for a discussion of BWFA's use of investment models.] The chief investment officer & senior portfolio manager periodically reviews Bob's accounts to ensure that they are being managed according to model specifications.
- All written communication with clients is captured in BWFA's proprietary Client Activity Tracking System (CATS). Verbal advice to clients is also generally recorded in CATS. A sampling of Bob's communications with his clients is periodically reviewed by the chief investment officer & senior portfolio manager.
- Bob performs a comprehensive annual portfolio review for each of his clients. [See ADV Part 2A Item 13.A(2)(a), page 24 for a discussion of portfolio reviews.] The chief investment officer & senior portfolio manager monitors Bob's portfolio reviews.
- BWFA's chief investment officer maintains a buy/sell/hold list of securities. [See ADV Part 2A Items 4.B(2), page 3, and 13.A(1), page 23 for a discussion of the buy/sell/hold list.] As part of periodic reviews of Bob's accounts, the chief investment officer & senior portfolio manager ensures that client holdings adhere to buy/sell/hold list recommendations.

- BWFA's Chief Compliance Officer, Robert Cassel, 410-461-3900, annually audits each aspect of Bob's work contained in the Item 6 bulleted points (immediately above) to ensure compliance with investment policies.



**Item 1- Cover Page**

**Mark O'Neal Stinson**  
**Director of Planning**

**Baltimore-Washington Financial Advisors, Inc.**

**5950 Symphony Woods Road, Suite 600**  
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**www.bwfa.com**

**December 31, 2012**

**This brochure supplement provides information about Mark O. Stinson that supplements the BWFA Brochure to which it is attached. Please contact our office if you have any questions about the contents of this supplement. Additional information about Mark O. Stinson is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Item 2- Educational Background and Business Experience**

Mark O. Stinson was born in 1959. He graduated from James Madison University in Harrisonburg, Virginia, receiving a Bachelor of Business Administration degree in Accounting and Finance. In 1994 Mark received an MBA in Finance from Loyola College in Baltimore, Maryland. In addition, he has earned the designations of:

- **CERTIFIED FINANCIAL PLANNER™ professional (CFP®)** from the CFP Board of Standards in 2008. A CFP® professional must meet certain education, examination, experience, and ethics requirements. As a CFP® professional, Mark:
  - Mastered a wide a variety of topics on integrated financial planning
  - Passed a 10-hour CFP Certification Examination
  - Demonstrated extensive experience in the field of financial planning
  - Was approved by the CFP Board (involving an extensive background check – including an ethics, character, and criminal check)
  - Adheres to the CFP Board Code of Ethics and Professional Responsibility and to the Financial Planning Practice Standards
  - Completes a minimum of 30 hours of continuing professional education every two years

- **Certified Public Accountant (CPA)** from the Maryland Board of Public Accountancy in 1988. As a CPA, Mark:
  - Completed a minimum of 120 qualifying credit hours in accounting, business, and ethics
  - Passed the rigorous four-part Uniform Certified Public Accountant Examination
  - Adheres to strict ethical and professional standards
  - Completes a minimum of 80 hours of continuing professional education every two years

Mark joined BWFA in 2004 to manage their financial planning department. He came to BWFA from AXA Advisors, LLC, where he was a financial consultant. Prior to his work at AXA, Mark spent twenty years in corporate accounting with manufacturing firms in the suburban Baltimore region.

### **Item 3- Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of each supervised person providing investment advice. No information is applicable to this item for Mark.

### **Item 4- Other Business Activities**

- C. Mark is not actively engaged in any investment-related business or occupation outside of BWFA. He is not registered, nor does he have an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant (FCM), commodity pool operator (CPO), commodity trading advisor (CTA), or an associated person of an FCM, CPO, or CTA.
- D. All of Mark's professional time is devoted to BWFA and to serving client needs. He is not actively engaged in any other business or occupation for compensation that provides a substantial source of income or involves a substantial amount of his time.

### **Item 5- Additional Compensation**

Mark does not receive economic benefit from any non-client source for providing advisory services. As a Fee-Only advisor dedicated to providing objective service and advice, BWFA does not accept, nor permit its portfolio managers to accept, commissions, sales awards, or other prizes beyond their normal BWFA salaries. This helps avoid conflicts of interest, and allows Mark to always act in his clients' best interests.

### **Item 6 - Supervision**

Mark works under the supervision of BWFA's President Robert Carpenter, as well as under Chief Investment Officer & Senior Portfolio Manager, Robert Williams. Both can be reached at 410-461-3900. Mark provides portfolio management services to BWFA's wealth accumulation clients. His work for, and advice to, clients is monitored in several ways:

- All client portfolios are managed within the guidelines of client-chosen investment models. [See ADV Part 2A Item 4.C(1), page 5 for a discussion of BWFA's use of investment models.] The chief investment officer & senior portfolio manager periodically reviews Mark's accounts to ensure that they are being managed according to model specifications.
- All written communication with clients is captured in BWFA's proprietary Client Activity Tracking System (CATS). Verbal advice to clients is also generally recorded in CATS. A sampling of Mark's communications with his clients is periodically reviewed by the chief investment officer & senior portfolio manager.
- Mark performs a comprehensive annual portfolio review for each of his clients. [See ADV Part 2A Item 13.A(2)(a), page 24 for a discussion of portfolio reviews.] The chief investment officer & senior portfolio manager monitors Mark's portfolio reviews.
- BWFA's chief investment officer maintains a buy/sell/hold list of securities. [See ADV Part 2A Items 4.B(2), page 3, and 13.A(1), page 23 for a discussion of the buy/sell/hold list.] As part of periodic reviews of Mark's accounts, the chief investment officer & senior portfolio manager ensures that client holdings adhere to buy/sell/hold list recommendations.
- BWFA's Chief Compliance Officer, Robert Cassel, 410-461-3900, annually audits each aspect of Mark's work contained in the Item 6 bulleted points (immediately above) to ensure compliance with investment policies.

**Item 1- Cover Page**

**Robert Lee George Williams  
Chief Investment Officer &  
Senior Portfolio Manager**

**Baltimore-Washington Financial Advisors, Inc.**

**5950 Symphony Woods Road, Suite 600  
Columbia, MD 21044**

**410-461-3900  
www.bwfa.com**

**December 31, 2012**

**This brochure supplement provides information about Robert L. G. Williams that supplements the BWFA Brochure to which it is attached. Please contact our office if you have any questions about the contents of this supplement. Additional information about Robert L. G. Williams is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Item 2- Educational Background and Business Experience**

Robert L. G. Williams (Rob) was born in 1955. He attended University of Vermont in Burlington, Vermont and then transferred to Towson State University in Towson, Maryland, graduating with a B.A. in Economics. In 1985 Rob earned an M.S. in Finance from Loyola College in Baltimore, Maryland. In 1999 he earned the designation of CERTIFIED FINANCIAL PLANNER™ professional (CFP®) from the CFP Board of Standards. A CFP® professional must meet certain education, examination, experience, and ethics requirements. As a CFP® professional, Rob:

- Mastered a wide a variety of topics on integrated financial planning
- Passed a 10-hour CFP Certification Examination
- Demonstrated extensive experience in the field of financial planning
- Was approved by the CFP Board (involving an extensive background check – including an ethics, character, and criminal check)
- Adheres to the CFP Board Code of Ethics and Professional Responsibility and to the Financial Planning Practice Standards

- Completes a minimum of 30 hours of continuing professional education every two years

Rob's entire career has been spent in financial services. Before joining BWFA in 1996, Rob's work included consulting for Deloitte, Haskins and Sells as well as investment management at Mercantile-Safe Deposit and Trust in Baltimore.

### **Item 3- Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of each supervised person providing investment advice. No information is applicable to this item for Rob.

### **Item 4- Other Business Activities**

- A. Rob is not actively engaged in any investment-related business or occupation outside of BWFA. He is not registered, nor does he have an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant (FCM), commodity pool operator (CPO), commodity trading advisor (CTA), or an associated person of an FCM, CPO, or CTA.
- B. All of Rob's professional time is devoted to BWFA and to serving client needs. He is not actively engaged in any other business or occupation for compensation that provides a source of income or involves a substantial amount of his time.

### **Item 5- Additional Compensation**

Rob does not receive economic benefit from any non-client source for providing advisory services. As a Fee-Only advisor dedicated to providing objective service and advice, BWFA does not accept, nor permit its portfolio managers to accept, commissions, sales awards, or other prizes beyond their normal BWFA salaries. This helps avoid conflicts of interest, and allows Rob to always act in his clients' best interests.

### **Item 6 - Supervision**

Rob works under the supervision of BWFA's President Robert Carpenter, 410-461-3900. Rob's work for, and advice to, clients is monitored in several ways. As noted below, each aspect of Rob's work is periodically audited by BWFA's compliance department, under the supervision of BWFA's Chief Compliance Officer Robert Cassel, 410-461-3900, to ensure compliance with investment policies:

- All client portfolios are managed within the guidelines of client-chosen investment models. [See ADV Part 2A Item 4.C(1), page 5 for a discussion of BWFA's use of investment models.] The chief compliance officer periodically reviews a sampling of Rob's accounts to ensure that they are being managed according to model specifications.

- All written communication with clients is captured in BWFA's proprietary Client Activity Tracking System (CATS). Verbal advice to clients is also generally recorded in CATS. A sampling of Rob's communications with his clients is periodically reviewed by the chief compliance officer.
- Rob performs a comprehensive annual portfolio review for each of his clients. [See ADV Part 2A Item 13.A(2)(a), page 24 for a discussion of portfolio reviews.] The chief compliance officer periodically audits a sampling Rob's portfolio reviews.
- Rob, as BWFA's chief investment officer, maintains a buy/sell/hold list of securities. [See ADV Part 2A Items 4.B(2), page 3, and 13.A(1), page 23 for a discussion of the buy/sell/hold list.] A sampling of client holdings managed by Rob is audited periodically by the chief compliance officer to ensure that they adhere to buy/sell/hold list recommendations.