



**Baltimore-Washington Financial Advisors, Inc.**  
**5950 Symphony Woods Road, Suite 600**  
**Columbia, MD 21044**  
**410-461-3900**  
**[www.bwfa.com](http://www.bwfa.com)**

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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 President and Chief Compliance Officer, Mr. Robert Carpenter. He 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.

## **Item 2 Summary of Material Changes**

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

Since the filing of our last annual amendment filing on March 23, 2023, we made the following changes.

- Item 5-Fees and Compensation: we updated the language on our Premier Service Levels and fees for PLATINUM, GOLD, SILVER AND BASIC.

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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 14.A] 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. Financial Blueprint Plans* - These plans address the issues of concern to people who are at or near the beginning of their careers. The objective of this type of plan is to identify ways for clients to embark on a healthy financial life. The Financial Blueprint highlights how to save for multiple priorities, finance major purchases, pay off debt, and begin investing for retirement. Advice is also given in the areas of tax minimization, education funding, insurance, and basic estate planning.

*b. Retirement and Estate Plans* - These types of plans address the myriad issues of concern to people who are closer to 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:

- 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)

BWFA generally expects to complete all types of financial plans in 30-60 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.

*c. Financial Plan Updates* - Included as part of all Retirement Plans is a periodic review, at a minimum annually, of the Financial Plan. The purpose of this review 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 Update meetings, a member of BWFA's financial planning team will:

- Track the progress of their plan
- 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

For non-retirement Financial Plans, all clients that engage with BWFA for financial planning only, receive one complimentary review. Premier Level Service Clients receive an annual financial planning review and update. Clients who engage in Financial Planning only have the option for additional reviews at a cost.

*d. 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 consider a client's financial goals, financial situation, income needs, and tax circumstances. They also evaluate the client's 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 investment committee's analysis of current financial 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 interests 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 a client seeks advice on investment options held within annuities, permanent life insurance policies, or employer-sponsored retirement plans that the client holds.

BWFA maintains a buy/sell/hold list of approximately 80-100 securities that it believes are appropriate investments for its clients. These 80-100 securities vary as to type (e.g. aggressive growth, growth, growth & income, income, international, 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, broad research resources, published analyses, and developments that it believes might influence each of the 80-100 investments. Based on our research of companies and the economy, we endeavor to select those securities that we believe represent the most attractive opportunities for our clients over the long term. Our core investment time horizon is typically three to five years. Our investment objective is generally long-term growth of capital. See Item 8.A for a discussion of BWFA's methods of analysis for managing assets. See Item 13.A(1) for additional information on BWFA's buy/sell/hold list.

BWFA uses Broadridge's Global Securities Class Action Services to monitor class action shareholder lawsuits and file claims on behalf of its clients to participate in cases where they may be eligible to receive proceeds due to legal settlements. Processing of class action claims are subject to a contingency fee assessed directly by Broadridge, in the event a recovery is made. (See Item 5C.2.) Class action recoveries, less the contingency fee, are paid directly by Broadridge to BWFA clients. Clients may opt out of this service by advising BWFA in writing.

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, completing due diligence, and closing the transaction.

5. Employer-Sponsored Retirement Plan Services - For small- to mid-sized companies offering employee retirement plans, BWFA will:

- a. Build a list of available funds and ETFs from which employees can pick when allocating investments in their retirement accounts
- b. Provide portfolio models with suggested allocations that employees can use as a reference
- c. Assist in the development of an investment policy statement (IPS)
- d. Sponsor one or more educational seminars or webinars each year to provide employees with investment-related information that will aid them in making investment decisions
- e. Offer certain financial planning services to some plan participants

Note: Portfolio management services are not provided as part of this service. BWFA has no discretion over employee investments and does not manage employee assets. Employees choose their own portfolio models and investment allocations. They are free to disregard BWFA-provided suggestions and manage their retirement accounts in whatever manner they choose.

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

1. Portfolio Strategies - BWFA offers three different investment strategies in order to meet the needs of individual clients. Strategies range in risk level from Capital Appreciation to Conservative Growth to Growth and Income. In addition, some custom models exist to accommodate unusual circumstances. Each strategy provides specific guidelines for allocating client investments among various asset types. Clients choose a BWFA investment strategy 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 strategy. The use of investment strategies:

- 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 strategy is being followed as agreed
- Ensures appropriate diversification among investments

2. 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 encouraged to monitor their accounts and review the trade confirmations and reports they receive from the custodian and from BWFA. Clients are asked to notify BWFA 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. 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. *IRA Rollover Recommendations.*** Effective December 20, 2021 (or such later date as the US Department of Labor ("DOL") Field Assistance Bulletin 2018-02 ceases to be in effect), for purposes of complying with the DOL's Prohibited Transaction Exemption 2020-02 ("PTE 2020-02") where applicable, we are providing the following acknowledgment to you.

When we provide investment advice to you regarding your retirement plan account or individual retirement account, we are fiduciaries within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way we make money creates some conflicts with your interests, so we operate under a special rule that requires us to act in your best interest and not put our interest ahead of yours. Under this special rule's provisions, we must:

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

We benefit financially from the rollover of your assets from a retirement account to an account that we manage or provide investment advice, because the assets increase our assets under management and, in turn, our advisory fees. As a fiduciary, we only recommend a rollover when we believe it is in your best interest.

**F. *Assets Under Management.*** As of March 1, 2024, we provide continuous management services for \$1,859,790,618 in client assets on a discretionary basis, and \$81,859,686 in client assets 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 and Employer-Sponsored Retirement Account Services, some of which are negotiable.



1. BWFA Premier Service Levels

PLATINUM - Clients with \$2,500,000 or more under management receive the following services:

- Complimentary Financial Planning
- Complimentary Generational Planning
- Investment Management
- Complimentary Premium Tax Services (annual value not to exceed \$2,000)
- Complimentary Lifetime Reviews
- Estate Planning

GOLD - Clients with \$1,000,000 to \$2,499,999 under management receive the following services:

- Complimentary Financial Planning
- Investment Management
- Complimentary Lifetime Reviews
- Tax Services (preferential rates apply)

SILVER - Clients with \$500,000 to \$999,999 under management receive the following services:

- Discounted Financial Planning (\$4,500)
- Investment Management
- Complimentary Lifetime Reviews
- Tax Services (standard rates apply)

BASIC - Financial Planning (comprehensive financial plan and 1 annual review):

- \$6,500

2. 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.

Plan Type	Fee
Retirement Plan	\$6,500
Financial Planning Projects	Variable
Financial Plan Checkup	n/c

Adjustments to fees:

- A 10% discount is provided to APL Federal Credit Union members for a Retirement Plan.
- A 10% discount is provided for JH Federal Credit Union members for a Retirement Plan.

3. Investment Management Services

a. *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. Annual investment management fees are not negotiable and are as follows:

- 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 between \$2,000,000 and \$5,000,000
- 0.75% on assets under management between \$5,000,000 and \$10,000,000
- 0.65% on assets under management in excess of \$10,000,000

4. Tax Services - BWFA offers three different types of tax services. Fees for these services 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* - BWFA may charge an additional fee 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 may be charged according to the scope and complexity of the project. A client is advised of the fee prior to the time that work begins.

5. 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.

6. Employer-Sponsored Retirement Plan Services - The annual fee for employer-sponsored retirement plan services for small- and mid-sized companies is a percentage of the average daily market value of assets held in plan retirement accounts during each calendar quarter. Annual fees are somewhat negotiable and typically range from 25 to 75 basis points (.25% to .75%) depending on the level of assets in the plan, the number of plan participants, and the type of financial planning services provided to plan participants.

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

1. Financial Planning clients are billed as follows:

- a. Retirement Plan clients sign a service agreement that includes preparation and presentation of a comprehensive financial plan and access to a financial planning advisor. In addition, Retirement Plan clients are entitled to annual Financial Plan updates. Retirement Plan client fees are paid in full at the time of signing the agreement, where applicable.
- b. Clients are billed for Financial Planning Projects at the time of signing the agreement.

2. Investment Management fees are charged in arrears (apply to the previous quarter). Fees are not prorated for the first quarter (new accounts). Accounts established during a quarter are charged for the full quarter. However, fees are prorated for the last quarter (closing account). Accounts closed during a quarter are charged a prorated management fee for that quarter, based on the number of days the account was open. For example, clients who begin investment management service in February are charged the full quarterly fee at the end of March; clients who close an account in February will be charged a management fee only for the period during which BWFA provided management services. 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 the client so requests, or 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 customarily billed at the completion of the work. In select instances, however, clients whose accounts have been repeatedly delinquent may be required to pay a retainer fee before BWFA commences work on a tax project.

4. Business Services clients are billed for fees incurred. Clients who engage BWFA to aid them in buying or selling a business or obtaining business financing are billed a monthly retainer fee and a success fee at the time of the closing of the purchase/sale of the business or business financing. 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. Employer-Sponsored Retirement Plan fees are deducted quarterly from participant accounts. At the end of each calendar quarter, fees equal to one-quarter of the annual rate (stated in the BWFA Employer-Sponsored Retirement Plan Service Agreement signed by the employer before plan participants are enrolled) are deducted from participant accounts. Fees are charged in arrears (they cover the previous quarter). The aggregated average daily balance for all plan assets is calculated and then charged to each plan participant on a pro-rata basis (allocated to participants proportionately to their account balances). Fees are calculated on a pro-rata basis for the first quarter (when plan is established) and final quarter (if plan is terminated). *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 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 with less than \$50,000 under BWFA's management. This fee is fully disclosed in the Investment Management Fees section of BWFA's Service Agreement. BWFA utilizes the services of Broadridge, a third-party service provider, to vote proxies on behalf of BWFA clients. See Item 17 for a discussion of proxy voting.

2. Securities Class Action Filing Service - As described in Item 4 B.2, BWFA utilizes Broadridge to monitor class action shareholder lawsuits and file claims on behalf of its clients to participate in cases where they may be eligible to receive proceeds due to legal settlements. Processing of class action claims are subject to a 20% contingency fee assessed directly by Broadridge, in the event a recovery is made. Accordingly, 80% of the total reimbursement of securities class actions settlements collected by Broadridge is paid directly to the client, while 20% is retained by Broadridge as compensation for managing the filing process. BWFA does not receive any portion of Broadridge's 20% contingency fee.

3. Transaction Fees - All BWFA client accounts are held with a custodian, currently Charles Schwab & Co., Inc. ("Schwab") (except for employer-sponsored retirement accounts and annuities, which are necessarily held with other custodians). For investment management services, Schwab charges transaction fees to client accounts. Though fees are subject to change, transaction fees currently in effect are as follows:

Buy/Sell Individual Security	\$ 0
Buy/Sell Exchange-Traded Fund (ETF)	\$ 0
Buy/Sell Equity Options	\$ 0 + \$ 0.65/contract
Buy/Sell "No Transaction Fee" ETF	\$ 0.00
Buy/Sell Mutual Fund	\$23.00
Buy/Sell "No Transaction Fee" Mutual Fund	\$ 0.00

BWFA has no control over and does not determine the brokerage commission rates paid by its clients. Schwab can change their commission rates at any time. The cost of brokerage commissions clients pay to Schwab is disclosed in the Investment Management Fees section of the BWFA's Service Agreement. See Item 12 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 fees are not paid in advance.
2. Tax services fees are not paid in advance, unless a client's account has been repeatedly delinquent. In such a case, BWFA may require that the client pay a retainer fee before commencing work on a tax project.
3. Financial planning fees are paid at the time the agreement is signed.

A client can obtain a full refund of 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.

4. 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 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. BWFA does not have a minimum asset size to qualify as a client.

## **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 strategy. Our research methodology includes a thorough examination of a company's strategy and outlook, its unique financial characteristics, and the capabilities of its management. In addition, we consider current economic trends as well as our expectations for the future. As part of our research process to assess a company we review key events, published analyses from various research sources, and other developments that we believe may influence the valuation and long-run suitability of investments.

We work to achieve strong performance over multiple market cycles, endeavoring to select those securities that we believe represent the most attractive opportunities for our clients over the long term. We do not believe that long-term goals can be met by chasing short-term results. Instead, we focus on the larger picture while remaining mindful of the current investment environment.

Our core investment time horizon is typically three to five years. Because our investment objective is long-term growth of capital, we focus on investing in securities that we believe are undervalued at the time of purchase and have the potential for growth. A guiding principle is the consideration of equity securities, such as common stocks, as units of ownership of a business that we endeavor to purchase when their price appears low in relation to the value of the total enterprise. We invest in securities of U.S.- and non-U.S.-based companies, and may hold shares in small-, mid-, and large-cap securities.

We typically sell a security when one or more of the following becomes true for a company:

- it shows deteriorating fundamentals
- its valuation appears excessive relative to its expected future earnings
- management has made missteps or changed strategy
- the original thesis for buying the shares no longer applies
- we have accounting-related concerns

Potential investment opportunities are identified utilizing a variety of sources and methods, such as research we perform on other investments (that leads us to consider competitors, related industries, etc.), our investment and economic outlook, and quantitative assessment (based on factors, such as earnings, cash flow, margin analysis, balance sheet strength, etc.) through on-going review of data and research resources.

The tools BWFA may use in its analytical process include: Ycharts, Morningstar, third- party research reports, news from other financial publications, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, company press releases, and management presentations. 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 may want to add/remove from this list. See Item 13, 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 a fundamental analytical process 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 multiple market areas
- Avoids speculative practices, and purchases securities based on a thorough research process
- Controls exposure within a client's portfolio by avoiding "big bets" and limiting purchases and holdings of a single security/stock to generally no more than 10% of the total market value of the client's portfolio, and of, a fund (mutual fund or exchange traded fund) to generally no more than 20%.
- 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 three different investment strategies that help define the level of risk acceptable in a client's portfolio. Risk is controlled within each portfolio strategy by specifying the types and percentages of stocks and income investments and the percentage of cash. See Item 4.C(1) for a more complete discussion of BWFA's use of investment strategies.

**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 information 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 strategies. 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 strategies, 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.

**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 an 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 Charles Schwab & Co., Inc. ("Schwab") as the custodian. BWFA operates as an independent corporation and is entirely separate from Schwab.

**B. Registration as a Futures Commission Merchant.** Neither BWFA nor any of its management personnel is registered, or has an 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 Institutions - BWFA has a relationship with Banking or Thrift Institutions ("Institutions") 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 the Institution for providing exposure or referrals. The director of marketing at the respective Institution is the primary contact. Institution members receive a 10% discount on planning services at BWFA. Institution employees may receive a BWFA financial plan at no charge. Nevertheless, there is no compensation provided by BWFA to any person affiliated with the Institution. BWFA feels its relationship with the Institution does not present a material conflict of interest either for BWFA's clients or for members of the Institution.
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 two of the law firms to which BWFA may refer clients with estate planning needs are Bouland & Brush, LLC, and Davis, Agnor, Rapaport, & Skalny, LLC. An estate planning attorney with Bouland & Brush serves as Trustee for two foundations for which BWFA provides investment management services and, accordingly, from which it receives fees. In addition, an estate planning attorney at Davis, Agnor, Rapaport & Skalny serves as trustee for two trust accounts for which BWFA provides investment management services and, accordingly, from which it receives fees. These relationships could potentially bias BWFA's referral recommendation to a client in favor of these particular law firms. However, no fees are received from or paid to Bouland & Brush, Davis, Agnor, Rapaport & Skalny, or any other law firm or attorney for referrals, and fees paid to BWFA as a result of these relationships are paid by the foundations/trusts, not by the law firms.

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 Schwab as custodian for much of its client assets, Schwab is not a related person/party of BWFA. BWFA is independent of Schwab.



**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 interests 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 employees 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 to minimize the possibility that a client might be disadvantaged because an advisor bought, sold, or held the same security as a client.

BWFA maintains an Employee Restricted Securities List (Restricted List) consisting of all stocks on the BWFA buy/sell/hold list and all individual equities under current consideration for addition to BWFA's buy list. Employee personal trades in individual equities on the Restricted List must be pre-approved.

**D. *Personal Trading, Timing.*** BWFA employees are prohibited from the activity known as "front running," a practice where employees 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 employee 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, 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.

BWFA employees are required to hold their own personal investments at the same custodian that holds BWFA client investments - currently Charles Schwab & Co., Inc. ("Schwab") - so that BWFA's chief compliance officer (CCO) can easily review employees' trading activity. Employees must receive prior written approval from BWFA's CCO to hold investments outside Schwab. If an employee holds investments outside Schwab, 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.

### **The custodian and brokers we use**

We do not maintain custody of your assets that we manage or on which we advise, although we may be deemed to have custody of your assets if you give us authority to withdraw assets from your account (see Item 15—Custody, below). Your assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or bank. We recommend that our clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, and SEI Private Trust Company ("SPTC"), a limited purpose federally registered savings association supervised by the Office of the Comptroller of the Currency, as their qualified custodian.

We are independently owned and operated and are not affiliated with the Custodian. The Custodian will hold your assets in a brokerage account and buy and sell securities when we instruct them to. While we recommend that you use Schwab and/or SEI as custodian/broker, you will decide whether to do so and will open your account with the Custodian by entering into an account agreement directly with them. Conflicts of interest associated with this arrangement are described below as well as in Item 14 (Client referrals and other compensation). You should consider these conflicts of interest when selecting your custodian.

We do not open the account for you, although we may assist you in doing so. Not all advisors require their clients to use a particular broker-dealer or other custodian selected by the advisor. Even though your account is maintained at the Custodian, and we anticipate that most trades will be executed through the Custodian, we can still use other brokers to execute trades for your account as described below (see "Your brokerage and custody costs").

## **How we select brokers/custodians**

We seek to use Schwab, a custodian/broker that will hold your assets and execute transactions. When considering whether the terms that Schwab provides are, overall, most advantageous to you when compared with other available providers and their services, we take into account a wide range of factors, including:

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

## **Your brokerage and custody costs**

For our clients' accounts that Schwab maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. Certain trades (for example, many mutual funds and ETFs) may not incur Schwab commissions or transaction fees. Schwab is also compensated by earning interest on the uninvested cash in your account in Schwab's Cash Features Program. In addition to commissions, Schwab charges you a flat dollar amount as a "prime broker" or "trade away" fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account.

We are not required to select the broker or dealer that charges the lowest transaction cost, even if that broker provides execution quality comparable to other brokers or dealers.

Although we are not required to execute all trades through Schwab, we have determined that having Schwab execute most trades is consistent with our duty to seek "best execution" of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see "How we select brokers/custodians"). By using another broker or dealer you may pay lower transaction costs.

## **Products and services available to us from Schwab**

Schwab Advisor Services™ is Schwab's business serving independent investment advisory firms like us. They provide us and our clients with access to their institutional brokerage services (trading, custody, reporting, and related services), many of which are not typically available to Schwab retail customers. However, certain retail investors may be able to get institutional brokerage services from Schwab without going through us.

Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts, while others help us manage and grow our business. Schwab's support services are generally available on an unsolicited basis (we don't have to request them) and at no charge to us. Following is a more detailed description of Schwab's support services:

**Services that benefit you.** Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets.

The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

**Services that do not directly benefit you.** Schwab also makes available to us other products and services that benefit us but do not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts and operating our firm. They include investment research, both Schwab's own and that of third parties. We use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

Services that generally benefit only us. Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology and business needs
- Consulting on legal and related compliance needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers
- Marketing consulting and support

Schwab provides some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab also discounts or waives its fees for some of these services or pays all or a part of a third party's fees. Schwab also provides us with other benefits, such as occasional business entertainment of our personnel. If you did not maintain your account with Schwab, we would be required to pay for these services from our own resources.

### **Our Interest in Schwab's Services**

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services. These services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. The fact that we receive these benefits from Schwab is an incentive for us to recommend the use of Schwab rather than making such a decision based exclusively on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a conflict of interest. We believe, however, that taken in the aggregate, our selection of Schwab as custodian

and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see "How we select brokers/ custodians") and not Schwab's services that benefit only us.

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. Schwab provides BWFA with certain benefits in recognition of BWFA's valuable business relationship to Schwab. The benefits that BWFA receives from Schwab are limited to things that help BWFA serve its clients' needs and promote BWFA's business activities. Schwab 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 for a discussion of block trades)
- Ability to charge client accounts for BWFA's investment management fees
- Ability to provide information to Broadridge for proxy voting
- Access to a trading desk
- Provision of duplicate client statements and confirmations

In addition, though not currently utilized by BWFA, Schwab 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 Schwab by BWFA. Even though BWFA receives certain economic benefits from utilizing Schwab 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 Schwab.

BWFA periodically reviews the suitability of Schwab and to date has found that Schwab continues to provide the best overall value for BWFA clients.

3. Research and Other Soft Dollar Benefits

a. *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 Schwab 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.

4. Brokerage for Client Referrals BWFA routinely directs virtually all client transactions to Schwab, (except for those in managed retirement accounts or annuities held at custodians other than Schwab). BWFA does not select or recommend brokers in return for client referrals. During BWFA's last fiscal year, it directed to Schwab all client transactions for accounts held at Schwab.

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 Schwab. 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 Schwab and does not have any economic relationship that creates a material conflict of interest.

Though BWFA directs virtually all of its trades through Schwab, on rare occasions BWFA may direct trades to brokers other than Schwab (known as "trade aways"). BWFA does this when it determines that it can get better prices for securities bought or sold outside of Schwab. BWFA recognizes that Schwab will charge additional fees to process "trade aways."

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 80-100 individual securities. These securities are entered into BWFA's Books and Records. The Investment Committee periodically updates security records and maintains research reviewed in the weekly Investment Management Committee meeting with relevant information and distributes updates electronically to portfolio managers and others within the firm. Information remains available 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) for additional information on BWFA's buy/sell/hold list.

The Investment Committee consists of (at least) the President/Chief Investment Officer, Senior Relationship Manager, and all Relationship Managers. They employ a collaborative approach and meet weekly to discuss updates to securities and other relevant market, economic, and investment matters. When considering investments, the team evaluates the investments' potential for capital appreciation and dividend return.

2. Client/Account Level Review

a. *Portfolio Reviews*- Each client's portfolio undergoes a comprehensive review each year. As part of this comprehensive annual review the advisor/portfolio manager generally does the following:

- Reviews the client's investments to ensure they are allocated in accordance with the client's chosen investment strategy and rebalance investments as needed;
- Verifies that special instructions and investment restrictions are being followed and appear current;
- Verifies that all client holdings are on BWFA's buy/hold list or are noted as exceptions in the client's Redtail profile.

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 Update* - A member of BWFA's financial planning team conducts Financial Plan Reviews as outlined in Item 4.B(1)(c).

**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 determine 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 strategy, so it is easy for clients to verify that BWFA is managing the portfolio according to the strategy 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 net of fees (calculated after fees have been deducted).
3. Investment Management Statement - Clients receive a quarterly statement 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 Charles Schwab & Co., Inc. ("Schwab") (see Item 15). Clients can receive their written Schwab 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. 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 investment advisor representatives, 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 a percentage of the client's 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. As a thank you, BWFA occasionally makes small personal gifts valued around \$100 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 primarily held at Charles Schwab & Co., Inc. ("Schwab"), in Aria annuities, or in clients' employer-sponsored retirement plans. Clients receive monthly statements from Schwab or appropriate custodian, 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 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) 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 Schwab and other custodians to ensure that all account transactions and balances are proper."

## **Item 16 Investment Discretion**

There are three 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.

The second situation exists when we have an agreement to manage investments for a client. The third situation exists when we provide services to a business in connection with an employer-sponsored retirement plan. Each is explained below.

**A. Financial Plan** - When we prepare a financial plan for a client, a section of the plan contains our recommendations for a client's BWFA Investment Strategy. 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. When preparing a retirement plan for a client, we use Monte Carlo simulation techniques to test the possible outcomes (success rates) of the plan that we recommend when BWFA provides no ongoing oversight or management of a client's 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. At review meetings, a member of BWFA's financial planning team reviews the client's current situation and discusses any investments, 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 strategy. In addition to executing BWFA's Service Agreement, each client completes account forms provided by the custodian (currently Charles Schwab & Co., Inc.), 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(2) 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.

**C. Employer-Sponsored Retirement Plan Accounts** - BWFA provides a company's employees with a list of available funds and ETFs in which the employees may invest their retirement assets. In addition, BWFA offers sample investment portfolio strategies with suggested allocations showing how employees could allocate their investments. Employees are free to implement BWFA's suggested allocations or reject them and invest their assets as they choose. BWFA provides no oversight or management of a client's investments in this situation.

## 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 a third-party service provider - Broadridge and its ProxyEdge solution. Within Broadridge's open architecture platform, BWFA selected Glass Lewis, a proxy advisory firm, to recommend how to vote proxies so as to best represent shareholder interests. Glass Lewis considers the reputation, experience, and competence of a company's management and board of directors when it evaluates a company and makes voting recommendations. BWFA has the option to vote on a specific issue in accordance with its determination of what is best for its clients, even if it differs from the Glass Lewis recommendation.

Broadridge helps 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 Glass Lewis to make client proxy voting recommendations, 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 its agreement with Broadridge. A copy of the Glass Lewis Policy Guidelines 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 in individual securities. Only one quarterly fee per client is charged, regardless of the number of accounts held. See Item 5.C(1) - 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.