



## Form ADV Part 2A Disclosure Brochure

February 21, 2024

This Disclosure Brochure provides information about the qualifications and business practices of Solitude Financial Services, Inc. If you have any questions about the contents of this brochure, please contact us at (434) 218-2201 or by email at [genekowalski@solitudefinancial.com](mailto:genekowalski@solitudefinancial.com). The information in this Disclosure Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Solitude Financial Services, Inc. is a registered investment adviser. Registration as an investment adviser does not imply any level of skill or training.

Additional information about Solitude Financial Services, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Solitude Financial Services, Inc.'s CRD number is: 150348.

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## Item 2: Material Changes

We will promptly update this Disclosure Brochure when material changes occur. Material changes are summarized in this section.

We initially provide you with a copy of our Disclosure Brochure when we enter into an agreement with you. On an annual basis, we will provide you with a Summary of Material Changes within 120 days of our fiscal year end. In the alternative, we could choose to provide you with a complete copy of our Disclosure Brochure.

The material changes in this brochure from the last annual updating amendment of Solitude Financial Services, Inc. on March 20, 2023 are described below. Material changes relate to Solitude Financial Services, Inc.'s policies, practices, or conflicts of interests only.

- Item 4: Advisory Business – As of December 31, 2023, Solitude Financial Services, Inc. has phased out its Tax Filing Reimbursement program, wherein the firm previously contributed to clients' tax preparation expenses.

You can request a current copy of our Disclosure Brochure at any time without charge by contacting us at (434) 218-2201 or SolitudeFinancial.com.

You can also obtain a copy of our current Disclosure Brochure from the SEC's website as described in [Item 1: Cover Page](#) above.

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## Item 4: Advisory Business

### Firm Overview

Solitude Financial Services, Inc. (“SFS”) is an S corporation organized and located in the State of Virginia. SFS operates as a fee-only, fiduciary investment advisory firm registered with the Securities and Exchange Commission (“SEC”) under the Investment Advisers Act of 1940. SFS has been in business since 2006, previously operating under the name of Kowalski Consulting. SFS became registered as an investment adviser in 2014 and became registered with the SEC in 2019. It is majority-owned and operated by the principal Investment Adviser Representative of the firm, Gene Michael Kowalski.

### Advisory Services

Our firm offers tailored investment advisory services to retail clients through our “financial life management” approach. We define this service to include four specific areas of advice:

- We collaborate with the client to define measurable financial goals, such as retirement at a specific lifestyle, child education, estate planning, etc. Goals will vary because they are driven by you and specific for you.
- We use financial planning software, combining lifetime cash flows (that is, expenses and income) and net worth (that is, assets less liabilities) to test the likelihood of your financial plan successfully funding your goals, and to identify and reduce failures from insurable events or market uncertainty.
- We create client portfolios and manage security selection in accordance with model portfolio strategies, any applicable client requested trading restrictions, and funding your goals in the required time frame.
- We advise how to use your next dollar of savings to improve the efficiency of funding your goals.

Our standard financial life management services provide ongoing planning and management of clients’ investment portfolios, which includes discretionary investment authority to monitor client accounts, choose investments, and make all needed and timely changes for our clients on a daily basis. These activities are tailored to meet individual clients’ investment goals and objectives, which are driven by client life events, annual milestones, and upon request.

At our discretion, we provide portfolio and financial planning advice through an hourly consulting arrangement to our client’s family members. We do not have investment discretion in such arrangements. Our firm does not have a minimum account size.

Client accounts will be held by a qualified custodian for which you have appointed us as your investment adviser of record and granting us discretionary authority, which means we are not required to give you advance notice or to seek your consent for any changes to your investment portfolio. See [Item 16: Investment Discretion](#) for more information about our discretionary authority. Although you retain ownership and control over your investment account, we ask that you refrain from conducting transactions in the account without first notifying us so we ensure your investment strategy is maintained.

Before receiving any advisory services, you will need to sign a written agreement that details the exact terms of service. We do not provide advisory services without an advisory agreement. All advisory services are provided to you by a qualified individual who is registered as an Investment Adviser Representative of our firm.

### Types of Investments

We generally employ long-term buy-and-hold passive investment strategies. Investments are limited to publicly traded securities, to include equities, fixed income, and cash instruments. SFS uses simple option strategies, such as

covered calls and puts, to control portfolio risk. See [Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss](#) for additional information on our portfolio management practices.

SFS does not specialize in complex strategies like market timing, technical trading, sophisticated options strategies (such as spreads or straddles), microcap companies, private placements, or other less common investments. If a client needs this type of advice, SFS will work with the client to find another adviser who can assist in that area or manage their entire portfolio.

### **Client Tailored Services**

We tailor our advisory services to your individual needs. We will conduct an initial interview and data gathering process to determine your financial situation and investment objectives. We provide our advisory services consistent with your investment objectives and with our fiduciary duty to you.

SFS uses model portfolios to help guide the portfolio construction of client accounts. We tailor these portfolios to any client-imposed restrictions requested by the client. Examples include maintaining certain legacy security positions within the client account, strategies to manage concentrated security risk, or excluding a security to which a client objects.

You can request reasonable restrictions on investing in certain securities, types of securities, or industry sectors. We will make a reasonable attempt to honor any reasonable restrictions you request, but in the case of pooled investment vehicles, such as mutual funds or exchange traded funds, where underlying holdings change frequently, we cannot guarantee restrictions will always be enforced. In addition, such restrictions could cause us to deviate from the investment decisions we would otherwise make in managing your account. In some cases, we will not be able to accommodate restrictions if they do not allow us to manage your portfolio in a prudent manner. You can also impose reasonable restrictions upon certain securities or types of securities in your account.

We make investment decisions based on the information clients provide to us. Changes to your personal financial circumstances, goals, or objectives could cause your investment strategy to become inaccurate and out of date. We recommend you notify us promptly of any changes so your investment portfolio can be updated, if necessary. We cannot offer any guarantees or promises that your goals and objectives will be met.

We will contact or attempt to contact you annually to confirm if there have been any changes in your financial situation or investment objectives, or determine if you wish to impose or modify account restrictions.

### **Wrap Fee Programs**

SFS does not use a wrap fee program, where a single fee would cover all fees and transaction charges.

### **Assets Under Management**

This section will be updated on at least an annual basis to reflect our assets under management as of December 31 of each year, or more frequently if material changes occur with regard to the assets we manage. SFS has the following assets under management:

<b>Discretionary Amounts:</b>	<b>Non-Discretionary Amounts:</b>	<b>As of:</b>
\$233,068,174	\$558,673	December 31, 2023

## Item 5: Fees and Compensation

We believe our fees are reasonable for the services provided and in relation to fees charged by other advisers offering similar services. However, our fees could be higher or lower than fees charged by other advisers offering similar services.

Please note, unless you have received our Disclosure Brochure at least 48 hours prior to signing an advisory agreement, you are able to terminate the advisory agreement within 5 business days of signing the agreement without incurring any penalties and advisory fees. We reserve the right to offer discounts or to waive fees at our sole discretion.

### Fee Schedule

SFS assesses fees based on a percentage of assets under management (“AUM”), paid quarterly in arrears, using a cascading fee schedule that decreases the fee percentage within each tier. For example, a \$3,000,000 portfolio would annually pay \$10,000 for the first tier, \$8,000 for the second tier, and \$7,000 for the third tier. Please see the general fee schedule below for our standard “financial life management” services:

Assets Under Management	Annual Fee
Tier 1: \$0 - \$1,000,000	1.00%
Tier 2: \$1,000,001 - \$2,000,000	0.80%
Tier 3: \$2,000,001 and above	0.70%

Account assets are billed in the following order to satisfy the fee tiers: tax-deferred accounts, then taxable accounts, and then Roth accounts. When possible, Roth account fees are billed to taxable accounts. Tax-deferred individual retirement accounts (“IRAs”) with less than \$1,000 in cash and no securities could have fees deducted to reduce the balance to \$0 with an identical credit to another deferred account owned by the same taxpayer to prevent pro-rata conversion problems.

The advisory fee is calculated on all assets held in your accounts, including cash and cash equivalents. However, in some instances, we will waive billing on certain cash products at our discretion. If you wish to hold assets not under our management, such assets should be held in a separate account. The actual fee is calculated by Orion and includes the effect of cash flows.

For new clients, fees are prorated based on the number of days services are provided during the initial billing period for services commenced. The prorated fee for the initial billing period is based on the market value of the client’s accounts when services commence.

You are able to terminate our investment advisory services by providing written notice to us at least 30 days prior to your intended termination date. Your final fee will be prorated based on the number of days services are provided during the final billing period, up to and including the termination date, and will be calculated on the amount of assets under management on the termination date.

Generally, fees are only negotiable for employees or clients well within retirement requiring only distribution and portfolio management strategies. Therefore, the actual percentage these clients pay could differ from that shown on the fee schedule above.

For our hourly consulting arrangements, each hour or 30-minute portion thereof is billed at \$250 an hour. Typically, these services will terminate upon completion of the portfolio or financial planning advice requested or delivery of a final financial plan. Either party can terminate a consulting arrangement upon 30 days written notice to the other party. In the event you decide to terminate the consulting services, you will be responsible for payment of our services provided prior to termination, based on the hourly rate multiplied by the hours worked prior to termination. We will provide you with any completed deliverables. However, please note if the consulting arrangement is terminated prior to completion of a particular deliverable, the scope and/or soundness of any analysis or other work product made prior to completion could be limited, inaccurate, or incomplete due to the early termination.

### **Payment of Fees**

SFS's fees for our standard services are billed quarterly in arrears based on the quarter-end account value with reductions for cash flows not held in your accounts for the full billing period. Fees are calculated on the fair market value of your investment portfolio, the valuation of which is provided by the custodian.

Payment will be debited directly from the client's brokerage account and paid to us by the qualified custodian. We will request that you authorize the custodian to deduct fees from your account and pay them to us. We are responsible for calculating the fee and delivering instructions to the custodian. Clients will receive invoices for every billing period, reflecting the assets under management and fee calculation for the invoice period, whether they pay directly or have the fees deducted from the account. We encourage you to review these invoices and compare them to the account statements you receive from the qualified custodian. The custodian does not verify the accuracy of the investment advisory fees deducted. If you have any questions or concerns about your invoice, you are urged to contact us immediately.

Fees for our hourly consulting services are due upon delivery of the advice in written form or five days after contract signing, whichever is later. An invoice for payment and a receipt for the client's records will be provided.

SFS does not require the prepayment of its investment advisory services.

### **Other Types of Fees and Expenses**

SFS's advisory fees do not include custodial fees, fees related to mutual funds, exchange fees, regulatory fees, wire transfer, electronic fund fees, and other transactional fees and product-level fees which are incurred by you from custodians, brokers, and other third parties. Mutual fund and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees, and commissions are exclusive of and in addition to our advisory fee, and we do not receive any portion of these commissions, fees, and costs.

SFS does not receive compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

Please refer to [Item 12: Brokerage Practices](#) below for additional information about our brokerage practices and the factors that SFS considers in selecting or recommending broker-dealers and custodians for client transactions and accounts and determining the reasonableness of their compensation (such as commissions).

## Item 6: Performance-Based Fees and Side-by-Side Management

SFS does not charge performance-based fees, defined as an additional or higher fee percent charged for a higher return in a given period. In addition, we do not perform side-by-side management, which refers to the practice of simultaneously managing accounts that pay performance-based fees (such as a hedge fund) and those that do not.

## Item 7: Types of Clients

SFS provides investment advisory services to individuals, including high net worth individuals. Before receiving any advisory services, you will be required to enter into a written agreement describing our services and fees.

We also manage accounts for our employees and immediate family members living in their household. This presents a conflict of interest in that it could create an incentive for employees to favor their personal accounts and those of their immediate family members over other client accounts. SFS has developed a Code of Ethics and Trading Policy designed to manage these conflicts of interest. See [Item 11: Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading](#) for more information on we manage this conflict of interest.

SFS does not have a minimum account size for opening or maintaining an account with us.

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

### Methods of Analysis and Investment Strategies

The securities chosen by our firm for our clients are building blocks to create the final investment portfolio and define the final allocation of asset types, such as percentages of stock, bonds, and cash. Asset allocation is a strategy designed to help mitigate risk and allocation targets are determined based on the individual client's objectives, goals, and risk tolerances.

We use the following securities to create our portfolios:

- **Exchange Traded Funds.** Exchange traded funds (“ETFs”) hold groups of securities that can be bought or sold continuously during an open market session, much like individual stocks. They can provide broad diversification at lower cost.
- **Individual Stock.** Stock represents ownership in a company. Stocks can provide certain enhancements to a portfolio, such as moving more independently of the broader market, have better returns on invested capital, or enhanced dividends.
- **Mutual Funds.** Mutual funds are similar to ETFs in terms of holding groups of securities for diversification, but generally with higher costs, and a purchase opportunity only at the end of a normal market session. These costs require their use to be limited to managers shown to outperform benchmarks or in areas of the market, such as in emerging markets or small company stocks, where efficiency would be difficult to achieve with other market products.
- **Individual Bonds.** Bonds are debt instruments issued by a single issuer with a fixed maturity date and payment schedule.
- **Cash.** Cash instruments include money market funds, money purchase funds, certificates of deposit (“CDs”), and other highly liquid forms of currency.



SFS primarily uses a fundamental analysis approach to analyze securities. This method focuses on determining the value of a security, concentrating on factors that determine a company's value and general financial health. The most common form of analysis is to examine the price relative to earnings and earnings yield for stocks, price relative to yield and quality for bonds, and stability of value for cash and cash-like instruments. Other forms of information used for this approach include:

- Published reports from the company that created the security;
- Published reports of other firm, industry, brokerage, or sector analysts;
- Press reports and other relevant news;
- Comparison to historical prices to make conclusions about price risk; and
- Commonly known public information that can be used to form opinions on the risk of the security and the likelihood of changes in price of the security.

This approach is based the investment philosophies of Ben Graham and Warren Buffet, our role models for shrewd, patient, and independent market investing. Since SFS does not seek to time the market, we look to identify assets that are trading below intrinsic value and to hold them until the market factors in the security's long-term value, or whose demand is sufficient to drive a rise in price over time. In general, we make limited investments in single issuers (that is, single stock picks, like Apple, Inc.) to compliment a broad exposure to most financial markets through allocations in mutual funds and ETFs. Opportunistically, SFS could identify and evaluate single issuer securities based on the following factors:

- The potential for contrarian positioning, in order to avoid purchases or sell when momentum, money, and support builds for an idea or asset and then buy when the market loathes an asset, creating an attractive opportunity for a patient investor;
- The potential for long holding periods and dollar cost averaging to significantly reduce the risk of buying high quality assets at high prices; and
- The specific opportunity to buy assets that are best able to take advantage of changes in technology or market trends.

Technical analysis is also used. This method focuses on the price behavior of the security over time and assumes that the market follows discernable patterns or trends. It can assist us in determining when a specific security, a sector of stocks, or the market in large could experience a significant short-term change in price.

SFS also utilizes Modern Portfolio Theory ("MPT") to round out its methods of analysis mentioned above when determining an investment strategy for a client. MPT is a theory of investing that attempts to maximize portfolio expected return for a given amount of portfolio risk or equivalently minimize risk for a given level of expected return, each by carefully choosing the proportions of various assets. MPT assumes that investors are generally risk-averse, meaning that investors will prefer the less risky option given two portfolios that offer the same expected return. Thus, an investor will take on increased risk only if compensated by higher expected returns. Conversely, an investor who wants higher expected returns must accept more risk. The exact trade-off will be the same for all investors, but different investors will evaluate the trade-off differently based on individual risk aversion characteristics. The implication is that, in general, an investor will not invest in a portfolio if a second portfolio exists with a more favorable risk-expected return profile (that is, if, for that level of risk, an alternative portfolio exists which has better-expected returns).

## **Risk of Loss**

Investing in securities involves risk, which implies that money can be lost. While there is risk in all investments, some carry a greater degree of risk or higher costs. There is no guarantee your investment strategy will result in your goals being met, nor is there any guarantee of profit or protection from loss. Where applicable, we encourage you to read the fund prospectus or other investment offering documents to fully understand the risks associated with each investment.

However, the existence of risk provides the opportunity to profit, so shunning all risk is not helpful if the desire is to achieve portfolio growth. Controlling and understanding risk is very helpful in minimizing losses and providing the opportunity for sustained growth over time. We believe one of the best ways to control risk is to receive professional help from financial advisers who are trained in common methods to control, quantify, and take advantage of securitized risks. Another method of controlling risk is to understand your part when experiencing asset price volatility. Client behavior, as it relates to following advice designed to control risks, is an important component to final return.

Each client is supplied the book *Simple Wealth, Inevitable Wealth* by Nick Murray. In it, Murray explains in plain language the relationship between risk and return, and the importance that your behavior can make on final outcomes. It also describes our focus on stocks as the engine of portfolio growth, helping to overcome the threat of inflation and the risk of failing to create sufficient wealth to last over a client's entire life.

Because our approach uses equities, clients should be prepared to experience portfolio losses. Returns on investing in equities are not guaranteed, nor can we guarantee that a properly designed portfolio will act as intended, in either total return or desired volatility.

## **Material Risks Involved**

Our fundamental and technical analysis methods of analyzing securities have the following risks:

- Published reports from the company that created the security could have substantive errors, or misleading information leading to errant conclusions on pricing.
- Published reports of other firm, industry, brokerage, or sector analysts could have substantive errors, or misleading information leading to errant conclusions on pricing.
- Assumptions on market demand could be in error, causing poorer buying or selling prices than desired.
- Security prices can deviate from expected valuations, sometimes for years. This can create poorer outcomes when buying or selling the security.
- Historical price information is not always predictive of future price behavior.
- Technical analysis is highly interpretive and can lead to conflicting opinions on price signals implied.

## **Material Risks of SFS Investment Strategies**

The quality of our methods of analysis and investment approach using MPT to fund client goals is dependent on various factors, including, but not limited to, the following:

- The ability of our firm to accurately calculate the client's risk tolerance and need for risk to achieve their goals.
- The accuracy of estimating the cost of taxes and inflation on return.
- The quality of the underlying securities chosen in terms of cost, return on invested capital, and market demand for their product, over other similar alternatives.

- The fidelity of maintaining the proper allocation through rebalancing.
- The quality of the prices paid by exploiting market downturns.
- The accuracy of our measure of the levels of correlation between selected securities.
- The discipline of the investor to maintain the selected allocation at all times, especially during large market movements.
- The allocation of assets that are beyond our control that cause the client to ask for changes in the assets we are managing for them.

## **Frequent Trading Risks**

SFS uses software to manage and rebalance portfolios to targets. We believe rebalancing is one of the best methods to control long-term price risk, as it continuously returns the portfolio to an established risk profile. This process helps capture gains and minimize losses over time. Historically, this positive outcome needed to be weighed against the commission costs for the transactions. SFS's chosen custodian, Charles Schwab & Co., Inc. ("Schwab"), has changed the nature of this process by eliminating equity commission fees for most securities, with the notable exception being that some mutual funds still charge commissions to buy or sell them. This creates an environment where more frequent trading and rebalancing can occur to capture the benefits of rebalancing without a material risk of costs eroding the value the process provides. A single share of a security can now be bought without the concern of the size of the sale commission to precisely achieve the desired position size. This allows more complex portfolio methods to be used on smaller account sizes, improving the likelihood that small portfolios can behave like larger ones, which were less affected by commissions.

Since the portfolio could also consist of mutual funds and since trades in taxable portions of the portfolio could be exposed to capital gains taxation, SFS will use the following methods to minimize these risks to client portfolios when using frequent trading to rebalance:

- Taxable accounts will generally be fixed (that is, locked to prevent trading) during rebalancing to prevent taxable outcomes. Trades in these accounts will be handled directly outside of overall rebalancing sessions to account for the tax issues.
- Mutual funds with no fee to trade will be preferred if they are to participate in rebalancing. If a fund is to be used that does not have a no trade fee share class, an ETF with similar risk characteristics will be used for the portion of that allocation that serves as the security to be rebalanced more frequently.
- If a mutual fund we do not use in our models is being eliminated for a client, and that fund charges a fee for sale, SFS will reimburse the client for the fees as the security is sold.
- If our custodian changes the zero commissions fee structure for the majority of the risk assets we use, we will return to more conventional (that is, less frequent) methods of buying and selling to make commission fees acceptable in size relative to the number of shares purchased.

## **Risks of Specific Securities Used**

SFS's model portfolios are primarily constructed with mutual funds and ETFs, which own a group of securities designed to track a particular market index or meet a specific investing goal. However, there is no guarantee that the fund will track its targeted index or achieve its stated investment objectives. The funds could have returns reduced more than anticipated by changes in managers, internal and external fees, commission rates for transactions, regulatory changes, market liquidity, and demand for their product.

SFS could use certain fixed income mutual funds and ETFs to invest in a group of investment grade or, at times, speculative grade bonds. A bond fund has risks that are different than the individual bonds. A fund holds bonds

with different dates of maturity and quality, and its price reflects factors that are different than those affecting the price of each bond held. While grouping bonds together to create a fund can improve the convenience and simplicity of investing specific amounts in fixed income, it can also expose the client to price dislocations. Bond fund prices can trade above or below the implied value of the assets in the fund. These errors are caused by the complexity of pricing the various dates that the bonds in the fund mature, the liquidity of each bond owned (that is, how easy it is to buy or sell), and the effects market disruptions have on pricing an asset made of many different bonds. For these reasons, individual bonds or target dated bond funds, where all of the bonds have similar risk ratings and mature in the same year, could be used. These should improve risk-adjusted returns and provide more predictable outcomes on fixed income in our portfolios over more widely diverse bond funds.

SFS client accounts could have individual stock from a single issuer, exposing the client to price risk if we miscalculate the intrinsic value of the security. We buy stocks that are both oriented to value (that is, lower prices relative to earnings and generally paying a dividend) and growth (that is, higher prices relative to earnings and generally dividend free). As both of these have different reactions to changes in the economic cycle of growth and recession, combining them in a portfolio can help combat the errors in mispricing if the security is rebalanced back to a target over long periods of time.

Finally, newer clients could move assets to us that we are not as familiar with as the ones we generally use for our model portfolios. Risk of loss could occur if we retain the asset for a long period of time before we can test its effects on return and volatility relative to our benchmarks. For these reasons, we will generally move new clients out of securities we do not follow to those we do shortly after beginning to work with us. We identify the asset's approximate risk and return profile and begin swapping it with similar assets in our models as market conditions allow. Additional losses can occur during this change to our models if the assets are not correlated to the ones that replace it.

All investments include inherent risks of loss. SFS does not guarantee to clients any rates of return on investment. Past performance is not indicative of future results. There is no guarantee that a client's investment objectives will be achieved or that any investment will achieve profits or avoid losses. The investment strategies discussed might not be suitable for all clients. Certain other risks are described below:

- Market Risk. Market risk is the general systematic risk faced by all financial assets whose prices will change due to factors they do not control, such as political, social, or economic events across the globe. Such market conditions can adversely affect client portfolios, including by making the valuation of some portfolio securities uncertain and/or result in sudden and significant valuation increases or declines in the portfolio holdings.
- Issuer Risk. Issuer risk is the non-systematic risk faced by a specific company, generally due to factors they do control, such as managerial efficiency, financial advantage, and market effectiveness.
- Market Sector Risk. Market sector risk occurs when an investment strategy results in significant over- or under-exposure to certain countries, industries, or market sectors, which can cause a portfolio's performance to be more or less sensitive to developments affecting those countries, industries, or sectors.
- Price Risk. Price risk occurs when buying or selling an asset at a poor price in the short-term causes underperformance of the portfolio in the long-term.
- Reinvestment Risk. Reinvestment risk is the risk faced by finding a suitably priced investment for proceeds of an asset sale or new cash.
- Interest Rate Risk. Interest rate risk occurs when price changes are driven by an asset's exposure to changes in bank rates for a currency.

- Inflation Risk. Inflation risk occurs when there is a general rise in all prices due to a weakening currency. During inflation, security prices tend to rise but real purchasing power is reduced over time as they are sold for the weakened currency. This reduces the real value of distributions.
- Deflation Risk. Deflation risk occurs when there is a general drop in all prices due to a strengthening currency. Deflation can cause investors to tend to wait for prices to drop again before investing, destroying demand. Further, deflation can affect the creditworthiness of issuers of fixed income securities, making them more likely to default.
- Allocation Risk. Allocation risk occurs when asset classes perform differently than each other at any given time, causing an investment strategy to be affected by its allocation among the various asset classes. If the strategy favors exposure to an asset class during a period when that class underperforms, performance can decline.
- Currency or Exchange Rate Risk. Currency or exchange rate risk occurs when asset value changes are caused by the repricing of the underlying issuer's chosen currency against the portfolio's currency.
- Management Risk. Management risk occurs when a strategy fails to produce the intended results or meet intended goals.
- Counterparty Risk. Counterparty risk occurs when a counterparty to a transaction defaults or fails to meet certain terms of the agreement.
- Liquidity Risk. Liquidity risk occurs when the client account is not able to readily convert an investment into cash, or without significant loss to principal. Generally, assets are considered more liquid if there is a high interest in the security.
- Timing Risk. Timing risk occurs when buying or selling an asset just before significant material information becomes public knowledge or selling an asset before sufficient time of ownership has passed, affecting the intended results or causing dramatic price fluctuations.
- Tax Risk. Tax risk occurs when executing an asset transaction in an unfavorable manner for final taxation.
- Suitability Risk. Suitability risk occurs when buying an asset that you do not understand well and finding out it does not help you meet your goals.

## Item 9: Disciplinary Information

As a registered investment adviser, we are required to disclose material facts about any legal or disciplinary event that could be material to your evaluation of our advisory business or of the integrity of our management personnel. We do not have any legal or disciplinary events regarding our firm or our management personnel to disclose.

Neither SFS as a firm nor its management team have been involved in a criminal or civil action; administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority; or proceeding before a self-regulatory organization ("SRO"), either currently or in the past.

## Item 10: Other Financial Industry Activities and Affiliations

Neither our firm nor any of our management personnel are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. In addition, neither our firm nor any of our management personnel are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an Associated Person of the foregoing entities.

We have established a relationship with Charles Schwab & Co., Inc. (“Schwab”), an unaffiliated broker-dealer, to act as the qualified custodian to help facilitate our management of client accounts. Further information regarding this custodial relationship is provided in [Item 12: Brokerage Practices](#) below.

We do not engage in any relationship or arrangement with financial services entities that create any material conflicts of interest between us and our clients.

### **Selection of Other Advisors or Managers**

SFS could aid in the search for another adviser if it becomes clear that the client has goals or needs that cannot be met with our approaches. If a new adviser is recommended, no compensation will be accepted for that recommendation. Similarly, if portions of a client’s portfolio need specialized attention and investment management is given to a third party, then the size of the asset with the third party will be removed from SFS’s calculation of its assets under management. No compensation will be accepted for the third party referral.

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

### **Code of Ethics**

As a fiduciary, our firm and our Supervised Persons have a duty of utmost good faith to act solely in the best interests of each client, which includes, but is not limited to, a duty of care, loyalty, obedience, and utmost good faith. Our clients entrust us with their funds and personal information, which in turn places a high standard on our conduct and integrity.

SFS has adopted a Code of Ethics (the “Code”) that establishes a standard of conduct that all employees must follow to uphold the firm’s fiduciary duty and our compliance with applicable securities laws. The Code includes a prohibition on insider trading and policy restrictions on personal trading, gifts and entertainment, and outside business activities. Employees must read, understand, and agree to comply with the Code when they join SFS, annually, and upon any material changes to the Code. Violations of the Code or related policies are taken seriously by SFS and can result in dismissal. A copy of the Code is posted on SFS’s website and will be provided to any client or prospective client upon request.

### **Participation or Interest in Client Transactions**

SFS does not recommend to clients or purchase and sell to clients any securities which the firm, its employees, or any entities under common control with SFS has a material interest, also known as a principal or agency cross trade. However, in limited circumstances, SFS could cross trade between client accounts when it is in the best interest of the clients and documented with all parties.

### **Personal Trading**

SFS requires employees and their immediate family members living in the same household to become clients of the firm and, consequently, personal securities transactions of these accounts (“Employee Accounts”) are managed and executed by the firm and treated as client accounts. Thus, the firm will frequently buy and sell securities for client accounts at or about the same time as Employee Accounts, including executing trades simultaneously with client transactions when participating in an aggregated (“block”) trade. See [Order Aggregation](#) in [Item 12: Brokerage Practices](#) below. Consequently, our firm and its employees buy or sell securities that are the same as, similar to, or different from, those we recommend to clients.

While this presents certain conflicts of interest, SFS seeks to mitigate these conflicts with a strong culture of compliance and a Code of Ethics designed to ensure that employees put clients' interests ahead of their own at all times. Further, clear policies exist in the Code to prevent a member of the firm from engaging in trading activity counter to our advice. Please refer to the Code if you wish to review other SFS policies designed to protect you as we trade client accounts.

Additionally, we invest predominantly in open-end mutual funds and ETFs, which helps to reduce conflicts of interest between trades made in accounts of our firm and our employees, even when such accounts invest in the same securities. However, in the event of other identified potential trade conflicts of interest, our goal is to place client interests first.

SFS and its Investment Adviser Representatives could also test portfolio management strategies or options strategies to develop methods to control or reduce risk within their personal accounts prior to general use in client accounts. This presents the potential for their accounts to hold different assets than other clients within the same model portfolio and for them to perform better or worse. SFS seeks to mitigate this conflict by having our Investment Adviser Representatives supervise one another's accounts and allowing variance from their Investment Policy Statement ("IPS") up to 10% of family portfolio asset value.

## Item 12: Brokerage Practices

### Selecting Custodians and/or Broker-Dealers

Our firm is not affiliated with any broker-dealers. However, SFS requires the use of Charles Schwab & Co., Inc. ("Schwab") to maintain custody of client assets and to effect trades for their accounts based on a combination of quantitative and qualitative factors relative to other providers. These factors include, but are not limited to:

- Transaction costs (such as commissions);
- Access to certain securities;
- Speed of execution;
- Speed of settlement;
- Level of client support services;
- Quality of research;
- Financial condition; and
- Responsiveness to SFS.

The United Airlines PRAP ("UAL PRAP") requires the use of Schwab as its custodian. As SFS primarily provides investment advice to airline pilots with UAL PRAP accounts, we prefer to consolidate the broader client relationship with Schwab for simplicity.

Schwab provides SFS with access to its institutional trading and custody services, which include the execution of securities transactions, access to an electronic trading platform, custodial services, access to client account data, research related products and tools, pricing and marketing data, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum client account size at no charge to SFS so long as we maintain at least \$10 million of clients' assets with Schwab.

As of October 2019, Schwab began offering commission-free trading for domestic stocks, ETFs, and options. SFS does receive investment research, software, and related systems support from Schwab, posing a potential conflict

of interest because SFS does not have to pay for these products or services. While these services do not benefit clients directly, they benefit SFS by assisting us in the administration of our business and the management of client accounts. However, the availability of these services does not depend on the number or value of brokerage transactions directed to the custodian and the services are generally available to all advisers who participate in the custodial program.

SFS does not engage in any soft dollar arrangements where client brokerage commissions (such as through mark-ups or mark-downs) are used to obtain research or other products or services that we would otherwise have to pay for directly.

SFS does not receive client referrals from Schwab or any other third party, nor is the ability to receive client referrals a factor that we consider in choosing a custodian.

SFS does not permit directed brokerage arrangements.

### **Best Execution**

SFS seeks best execution for our clients. However, it is our belief that the determinative factor is not always the lowest possible cost but whether the selected custodian's transactions represent the best qualitative execution while taking into consideration the full range of services provided. Therefore, our firm will seek services involving competitive rates but it might not necessarily correlate into the lowest possible rate for each transaction. We have determined trading our clients' accounts through a preferred custodian is consistent with our firm's obligation to seek best execution of your trades. We regularly review and consider the overall quality and price of the services received from our preferred custodian in light of our duty to seek best execution.

### **Order Aggregation**

Client orders executed through the same broker-dealer could be aggregated to achieve best execution, also called "block trading." Each client will receive the average share price of all orders executed to fill the aggregated order. Transaction fees, brokerage fees, and commissions will be allocated on a pro-rata basis. Transactions in accounts held by our SFS or its employees could participate in aggregated trading blocks along with client transactions. In such cases, share prices and expenses will be allocated equally among client accounts and those accounts of our firm and its employees.

SFS accomplishes trading across client accounts in the following manners:

- Independently of one another with trade prioritization starting with portfolios most out of tolerance, then proximity to goal, and then descending level of model portfolio risk. This could mean that certain client accounts trading the same securities on the same day receive a different price. SFS reviews performance dispersion between accounts within the same model portfolio to ensure this trading practice does not materially impact client accounts.
- Targeting specific securities for all client portfolios.
- Targeting specific types of accounts within client portfolios (such as taxable, tax-deferred, or Roth accounts).
- Grouping client trades together by model portfolio.
- Choosing option contracts designed to control specific portfolio risks or to create liquidity as needed.

SFS utilizes block trading to rebalance client Roth accounts periodically. Block trades allow clients to receive the same average price regardless of the number of shares allocated or the method of allocation. Shares are allocated



pro-rata based on account size with the intent to return client positions to ideal targets. At SFS's discretion, block trading could also be used for tax-deferred or taxable accounts, such as, but not limited to, when securities are rising or falling rapidly due to broader market swings and the firm wants to aggregate the purchases or sells of the same securities for several clients in the same day to ensure client accounts obtain more equitable prices than trading independently during significant market movements.

We seek to provide investment decisions in accordance with our fiduciary duties to you and without consideration of our economic, investment, or other financial interests. To meet our fiduciary obligations, we attempt to avoid, among other things, investment or trading practices that systematically advantage or disadvantage certain client portfolios. Accordingly, we seek fair and equitable allocation of investment opportunities and transactions among our clients to avoid favoring one client over another over time. It is our policy to allocate investment opportunities and transactions we identify as being appropriate and prudent among clients on a fair and equitable basis over time.

## Item 13: Reviews of Accounts

### Frequency and Nature of Periodic Reviews

SFS's Investment Adviser Representatives conduct portfolio reviews to ensure your portfolio remains consistent with objectives, goals, and risk tolerance. Client accounts are generally monitored on a daily basis, while comprehensive reviews with clients are driven by life events, annual milestones, and upon request. Comprehensive reviews cover financial life management topics as described in [Item 4: Advisory Services above](#).

### Non-Periodic Review of Client Accounts

As part of our investment management process, SFS ensures that non-periodic reviews occur when:

- Market movement of more than 10% in a single day;
- Market movement of more than 20% in a 60-day period; and
- Material changes at the issuer could affect the suitability for a security to be in a client portfolio.

### Reports Provided to Clients

Clients receive account reports from SFS on a quarterly basis and custodial account statements from Schwab at least quarterly. Clients should compare the account statements they receive from the custodian with those they receive from SFS. Schwab does not verify the accuracy of the investment advisory fees deducted. If you have any questions or concerns about your invoice, you are urged to contact us immediately.

## Item 14: Client Referrals and Other Compensation

Other than the benefits from custodians disclosed in [Item 12: Brokerage Practices](#) above, SFS does not receive an economic benefit, directly or indirectly, from any third party for advice rendered to our clients. Nor do we, directly or indirectly, compensate any person who is not advisory personnel for client referrals.

## Item 15: Custody

Under SEC regulation, SFS is deemed to have constructive custody of client assets as a result of clients authorizing us to directly debit our management fees from client accounts. However, we do not take possession of client assets and ensure that they are kept at a qualified custodian.

As explained in more detail in [Item 12: Brokerage Practices](#) above, clients will open and maintain investment accounts with a qualified custodian. The custodian will send account statements directly to the client on at least a quarterly basis. These account statements will reflect all securities held as well as any transactions that occurred in the account, including the deduction of our investment management fee. We urge clients to carefully review their account statements and compare the custodial records to any account statements that SFS provides to the client. At all times, Schwab maintains actual custody of assets.

Additionally, SFS could utilize standing letters of authorization (“SLOAs”) for certain client accounts, which give it the authority to transfer money from a client account to another client account or third-party account. SFS ensures it follows the safeguards specified by the SEC with regards to SLOAs in order to forego an annual surprise examination for such accounts.

SFS has determined that it has custody over Pilot Retirement Account Plan (“PRAP”) accounts. As a result, we have elected to undergo annual surprise examinations by an independent auditor for all PRAP accounts.

## Item 16: Investment Discretion

Prior to SFS acting with discretionary authority on behalf of its clients, the client must sign a contract that specifically delegates discretionary authority to SFS and specifies the accounts for which this authority will be granted. For each account, a limited power of attorney (“LPOA”) is executed with the custodian. This LPOA will grant us the ability to purchase and sell securities in client accounts with discretion over the specific securities to be purchased and sold, the amount of securities to be purchased and sold, and when to purchase or sell said securities without obtaining approval or consent from you prior to effecting the transaction. However, these transactions are subject to the investment strategy we have established with you.

SFS does not have the ability to withdraw or transfer client assets into an account not in the client’s name, with the exception of directly debiting these accounts to pay our management fees. Once in place, a client can cancel this discretionary authority at any time in writing or by email to SFS as well as notifying the custodian of the account in the manner they require.

## Item 17: Voting Client Securities

SFS does not retain the authority to proxy vote securities held in client accounts, nor do we provide advice to clients on how to vote. Arrangements are made with the custodian to ensure all proxy voting materials are forwarded to the clients.

Additionally, we do not take any action on behalf of clients or provide advice to clients with regard to any class action lawsuit or bankruptcy related to securities held in client investment accounts.

## Item 18: Financial Information

SFS does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Therefore, we are not required to include our balance sheet in this section. We do not have any financial condition reasonably likely to impair our ability to meet our contractual requirements to you. We have not been the subject of a bankruptcy petition at any time.