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## **Form ADV, Part 2A Brochure**

August 28, 2019

This brochure provides information about the qualifications and business practices of Klein Financial Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at (949) 477-4990 or [info@KleinAdvisors.com](mailto:info@KleinAdvisors.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Any reference to or use of the terms "registered investment adviser" or "registered," does not imply that Klein Financial Advisors, Inc. or any person associated with Klein Financial Advisors, Inc. has achieved a certain level of skill or training. Additional information about Klein Financial Advisors, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The firm's searchable CRD number is 128910.

## **ITEM 2 - MATERIAL CHANGES**

The purpose of this page is to inform you of any material changes to this brochure. If you are receiving this brochure for the first time this section may not be relevant to you.

Klein Financial Advisors, Inc. ("KFA") reviews and updates our brochure at least annually to make sure that it remains current. We have made the following material changes since the annual update to our brochure, dated February 1, 2018.

Chief Compliance Officer is now Lauren Klein

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## ITEM 4 - ADVISORY BUSINESS

### Description of Advisory Firm

Klein Financial Advisors, Inc. (“KFA,” “we,” “our,” or “us”) is a privately owned corporation headquartered in Newport Beach, CA. KFA is registered as an investment adviser with the State of California and the State of Texas.

Lauren S. Klein, CFP®, President, and principal owner, founded KFA in 2003.

### Advisory Services Offered

KFA offers investment management and financial planning services to clients. We focus on women and their families during life transitions including divorce, retirement, loss of a loved one, inheritance, and issues of aging. Our clients include widows, divorcees, executives, business owners, and caring family members. We offer the following services:

#### Investment Management Services

Our investment services encompass two primary areas: wealth management and investment consulting.

#### *Wealth Management*

Our wealth management process is a consultative approach to address client financial needs. It integrates investment consulting and advanced financial planning to clients. KFA collaborates with the client’s other advisors, such as attorneys, CPAs, and insurance specialists, among others, to coordinate the wealth management strategy for the client.

KFA first conducts a discovery interview to determine the client’s most important challenges and priorities. We gather data to assist the client in determining specific needs, goals, objectives, and tolerance for risk. Using this information, we then prepare a gap analysis and an investment plan outlining the client’s current situation and KFA’s recommendations for moving forward, including details of the proposed investment approach. Finally, we present the investment plan to the client in an implementation meeting with the purpose of confirming mutual commitment to the investment plan.

Following the mutual commitment to the investment plan, KFA will assist the client in the establishment of accounts and the organization of other account paperwork. Simultaneously, KFA will evaluate other aspects of the client’s financial situation, working with other professionals, as necessary, to develop a wealth management blueprint for addressing advanced planning needs. Advanced planning goes beyond investments to look at four other aspects of wealth management:

1. Wealth enhancement; seeks to produce investment returns consistent with the client’s risk capacity and to minimize the tax impact of those returns.
2. Wealth transfer; to find and facilitate a tax-efficient way to pass assets to succeeding generations in a way that meets the client’s intentions.
3. Asset protection; aimed at protecting wealth against potential creditors, litigants, spouses, and potential ex-spouses, as well as protecting against catastrophic loss.
4. Charitable planning; to fulfill charitable goals and can help support efforts in each of the other three areas.

The wealth management plan is not static and requires periodic amendments. KFA will review the progress and implementation of the wealth management plan on a regular basis, meeting with the client at least annually or more often if needed.

## *Investment Consulting*

Our investment consulting process concentrates on the ongoing asset management aspect of a client's portfolio and seeks to build wealth. KFA's recommendations for new investments primarily include a diversified selection of mutual funds.

Additionally, KFA's recommendations, depending on the individual investment objectives and needs of the client may include:

1. Exchange traded funds (ETFs)
2. Closed-end Funds
3. Equity securities, including stocks and foreign securities listed on US exchanges (ADRs)
4. Fixed income securities, including corporate and government bonds, commercial paper, and certificates of deposit (CDs)
5. U.S. government securities
6. Municipal bonds
7. Inflation-indexed bonds
8. Master Limited Partnerships (MLPs)

KFA may occasionally offer advice regarding additional types of investments if they are appropriate to address the individual needs, goals, and objectives of the client or in response to client inquiry. KFA may offer investment advice on any investment held by the client at the start of the advisory relationship. We describe the material investment risks for many of the securities that we recommend under the heading ***Specific Security Risks*** in ***Item 8*** below.

We discuss our discretionary authority below under ***Item 16 - Investment Discretion***. For more information about the restrictions, clients can put on their accounts, see ***Tailored Services and Client Imposed Restrictions*** in this item below.

We describe the Fees charged for investment management services below under ***Item 5 - Fees and Compensation***.

### *Financial Planning and Divorce Planning Services*

KFA generally includes financial planning services without separate compensation as part of our overall wealth management services. These services may involve providing advice to clients regarding the investment/management of financial resources based upon an analysis of their individual needs.

KFA also offers financial planning services to clients that have special circumstances or do not meet the asset requirement for our investment management services. Financial planning services may include portfolio reviews, general financial consulting, and other individualized advice. Financial plans may include but are not limited to the following:

1. Cash flow and debt management;
2. Tax planning;
3. Retirement planning;

4. Investments;
5. Education funding;
6. Estate planning;
7. Divorce financial planning;
8. Widow's transition assistance; and
9. Business planning and risk management (insurance analysis).

KFA offers a range of financial planning services, from broad planning to custom planning focused on specific areas requested by the client.

As part of the financial planning process, KFA collects information about the client's financial situation and needs. Further, we collect information regarding net worth, income, expenses, taxes, investments, retirement plans, life insurance, disability insurance, health insurance, long term care insurance, business agreements, divorce papers, pre-nuptial agreements, estate documents, and any other documents that pertain to the client's overall financial picture. Also, KFA asks the client about their future goals and objectives. We then develop a personalized plan that includes specific recommendations in all applicable areas.

Financial planning services may not always include preparation of a written plan and do not include preparation of any income tax, gift, or estate tax returns or preparation of legal documents, including wills or trusts. Clients may elect, but are under no obligation, to receive assistance from KFA for the implementation of the recommendations we make.

### *Tax Preparation Services*

KFA offers tax preparation and tax planning services as requested by the client. Services offered typically include income tax returns and schedules and will vary depending on each client's circumstances.

Lauren Klein is also a Certified Divorce Financial Analyst (CDFA™). The roles of a CDFA™ includes knowledge of tax law, asset distribution, and long-term financial planning to achieve a marital settlement. KFA helps clients assess the financial impact of divorce-related decisions such as tax matters, pension plans, health coverage, and stock options.

We describe fees charged for financial planning services below under ***Item 5 - Fees and Compensation***.

Retirement Rollovers-No Obligation/Conflict of Interest: A client leaving an employer typically has four options (and may engage in a combination of these options): 1) leave the money in his former employer's plan, if permitted, 2) roll over the assets to his/her new employer's plan, if one is available and rollovers are permitted, 3) rollover to an Individual Retirement Account (IRA), or 4) cash out the account value (which could depending upon the client's age, result in adverse tax consequences).

KFA may recommend an investor roll over plan assets to an IRA managed by KFA. As a result, KFA may earn an asset-based fee; however, a recommendation that a client or prospective client leave their plan assets with their old employer will result in no compensation. KFA has an economic incentive to encourage an investor to roll plan assets into an IRA that KFA will manage.

There are factors that KFA may consider before recommending a rollover, including but not limited to: i) the investment options available in the plan versus the investment options available in an IRA, ii) fees and expenses in the plan versus the fees and expenses in an IRA, iii) the services and

responsiveness of the plan's investment professionals versus those of KFA, iv) required minimum distributions and age considerations, and vi) employer stock tax consequences, if any. No client is under any obligation to roll over plan assets to an IRA managed by KFA.

### Limitations on Investments

#### *Limitation by Plan Sponsor/Employer*

When KFA is managing assets within a retirement plan such as 401(k), 403(b), ORP or other employer plan, KFA is limited to those investment providers and investment options chosen by the plan administrator. Similarly, when we provide services to participants in an employer-sponsored plan, the participant may be limited to investing in securities included in the plan's investment options. Therefore, KFA can only make recommendations to the client from among the available options, and will not recommend or invest the client's account in other securities, even if there may be better options elsewhere.

#### *Limitation by Issuer*

In the event KFA is managing assets within an annuity, KFA is limited to those investment options made available by the insurance agency.

#### *Mutual Fund Limitations*

##### No Load Mutual Funds

KFA limits recommendations of mutual funds to no-load funds or equivalent investment products.

#### *Limitation by Custodian*

There may also be limitations on the mutual funds that we recommend. For clients with accounts held at certain custodians, KFA is limited to the mutual funds available through the custodian. The custodians we recommend to clients include Shareholders Service Group ("SSG") or Schwab Institutional® a division of Charles Schwab & Co., Inc. ("Schwab"), Registered broker-dealer, Members SIPC.

#### *Limitation by Client*

KFA may also limit advice based on certain client-imposed restrictions. For more information about restrictions, clients can put on their accounts, see ***Tailored Services and Client Imposed Restrictions*** in this Item below.

### **Tailored Services and Client Imposed Restrictions**

KFA manages client accounts based on the investment strategy the client chooses, as discussed below under ***Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss***. KFA applies the strategy for each client, based on the client's circumstances and financial situation. We make investment decisions for clients based on information the client supplies about their financial situation, goals, and risk tolerance.

Our recommendations may be limited if the client does not provide us with accurate and complete information. It is the client's responsibility to notify KFA of any material changes in the client's financial situation (i.e., the loss of a job, retirement, receipt of a significant bonus, an inheritance, the birth of a new child, or other circumstances).

Clients may also request other restrictions on the account, such as when a client needs to keep a minimum level of cash in the account or does not want KFA to buy or sell certain specific securities or security types in the account. KFA reserves the right not to accept and/or terminate management of a client's account if we feel that the client-imposed restrictions would limit or prevent us from meeting or maintaining the client's investment strategy.

## Assets Under Management

KFA manages assets in discretionary and non-discretionary accounts on a continuous and regular basis. As of December 31, 2018, the total amount of assets under our management was: Discretionary Assets

\$ 87,484,923

Non-Discretionary Assets \$ 2,748,144

Total Assets \$ 90,233,067

## ITEM 5 - FEES AND COMPENSATION

### Fee Schedule

#### Investment Supervisory Services

The annualized fee for Investment Supervisory Services will be charged as a percentage of assets under management according to the schedule below.

Assets Under Management	Annual Fee
Up to \$1,000,000	1.00%
\$1,000,001 to \$3,000,000	0.80%
\$3,000,001 to \$5,000,000	0.60%
Amounts after and above the first \$5,000,001	0.50%
Illiquid assets (e.g. real estate, businesses)	0.20%
Retirement/other assets (advised on)	0.25%

Fees are calculated on a next plus basis. For example, a Client with \$5,000,000 under management would pay 1.00% on the first \$1,000,000, 0.80% on the next \$2,000,000, 0.60% on the next \$2,000,000.

For illiquid investments like real estate, registered stock, directly held mortgages and business, we charge on the total value of those assets and do not offset any liability. The value of those assets, retirement and other investment assets will be determined October 31st annually with that value to be effective with the December 31st invoice for that year.

Some accounts may be under different fee schedules honoring prior agreements. Our standard fee schedule may be negotiable based on factors, which include but are not limited to “grandfathered”

accounts, related accounts, and other structures that we may consider in special situations. KFA may aggregate client accounts that have family relationships with each other for purposes of calculating the advisory fee rate applicable to each client. We may make pro-rata adjustments for additions or withdrawals made during the client's billing period. The client's quarterly fee calculation will reflect any pro-rated additions.

Lower fees for comparable services may be available from other sources.

#### Setup Charges (One-time charge)

We charge a one-time setup charge of \$2,200 at the start of a new investment advisory relationship. We assess the setup charge when the client's account is opened with KFA. Under special circumstances, we may negotiate or waive the setup charge.

#### Minimum Fee

##### *Investment Management Services*

A minimum of \$500,000 of assets under management is required for this service. If the regular quarterly management fee calculated based on assets under management is less than our minimum advisory fee, we charge the client our minimum \$5,000 fee. However, we may make exceptions at our discretion.

#### **Billing Method**

##### Investment Management Services

KFA's advisory fees are payable quarterly in arrears based on the account market value on the last day of the calendar quarter. The first payment is due after the first full quarter under management. The formula used for the calculation is as follows:  $(Annual\ Rate) \times (Total\ Assets\ Under\ Management\ at\ Quarter-End) / 4$ .

For advisory fee calculation purposes, a calendar quarter is a period beginning on January 1, April 1, July 1, or October 1 and ending on the day before the next quarter. A day is any calendar day including weekends and holidays. For new accounts and terminations, the number of days remaining in the quarter is the number of calendar days following the date a new account is funded or the effective date of termination.

KFA may aggregate client accounts that have family relationships with each other for purposes of calculating the advisory fees applicable to each client.

It is up to the client whether they wish to have the advisory fees withdrawn directly from their custodian account or pay by check. With client authorization, KFA will automatically withdraw KFA's advisory fee from the client's account held by an independent custodian. Typically, the custodian withdraws advisory fees from the client's account during the first month of each quarter based on KFA's instruction. All clients will receive brokerage statements from the custodian no less frequently than quarterly. The custodian statement will show the deduction of the advisory fee for those clients who authorize the advisory fees to be withdrawn directly from their custodian account.

KFA will send a statement to each client who authorizes KFA to withdraw fees directly from the custodian. The statement will show the amount of the fee, the value of the client's assets upon which the fee was based, and the specific manner in which we calculated the fee. It is the client's responsibility to verify the accuracy of the fee calculation. The custodian will not determine whether the fee is properly calculated.

KFA will send an invoice to all clients who choose not to have advisory fees withdrawn directly from their custodian account. The invoice is payable upon receipt and will include the fee calculation and amount due.

### Financial Planning and Divorce Financial Planning Fees

Our minimum fee for divorce financial planning is \$3,500, which is due at the initial conference and will be credited to the client's account.

All clients will be billed based on the number of hours worked on their behalf. Our hourly rates are:

Consultation and Analysis – Director	\$380 / hour
Consultation and Analysis – Associate	\$225 / hour
Administrative Time	\$ 80 / hour

All work accomplished by KFA will be charged against an initial Retainer of \$5,000.

At a client's request, KFA may provide financial planning consulting services on an hourly or fixed rate basis. We base fixed fee consulting on an estimate of time it will take to complete a project using our hourly rate of \$380. Fixed rate ranges are between \$380 and \$8,500 but could be higher depending on the scope of the project. The fixed fee may be negotiable based on the nature and complexity of each client's circumstances. An initial retainer of 50% of the estimated fee will be due upon signing the consulting agreement. The remaining estimated fee will be due at the earlier of six months or the final plan presentation.

### Other Fees and Expenses

KFA's fees do not include custodian fees. Clients pay all brokerage commissions, stock transfer fees, and/or other similar charges incurred in connection with transactions in accounts from the assets in the account, which are in addition to the fees client pays to KFA. See **Item 12 - Brokerage Practices** below for more information.

In addition, any mutual fund shares held in a client's account may be subject to deferred sales charges, 12b-1 fees, and other fund-related expenses. The fund's prospectus fully describes the fees and expenses. All fees paid to KFA for services are separate and distinct from the fees and expenses charged by mutual funds. Mutual funds pay advisory fees to their managers, which are indirectly charged to all holders of the mutual fund shares. Consequently, clients with mutual funds in their portfolios are effectively paying both KFA and the mutual fund manager for the management of their assets.

## **Termination**

### Investment Management Services

Either party may terminate the agreement upon thirty (30) days written notice to the other party. The client may terminate the agreement by writing KFA at our office. Upon termination of the agreement, any earned, unpaid advisory fees will be due and payable. The client will receive an invoice showing the advisory fees due for services rendered and not yet paid. The refund will be pro-rated based on the effective date of termination.

### Financial Consulting and Divorce Planning Services

KFA considers the planning phase of our services to be complete, and the agreement terminated upon delivery of a satisfactory project. If either the client or KFA wishes to terminate the financial or divorce planning agreement before completion of the plan, either party may terminate the agreement at any time by providing written notice to the other party.

Upon notice of termination, KFA will provide you with an invoice for services provided through the date of termination. If you paid fees in advance that were more than the amount due for services, KFA would refund any unearned fees to you.

### **Other Compensation**

KFA does not accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds. We do receive additional compensation for tax preparation/planning services and divorce planning/consulting. We describe these services in *Other Affiliated Business* in **Item 10**, below.

## **ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

KFA does not charge performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a client.

## **ITEM 7 - TYPES OF CLIENTS**

KFA offers discretionary investment management and planning services to individuals, high net worth individuals, trusts and estates, donor-advised philanthropic funds, individual participants of retirement plans, pension and profit sharing plans, and businesses.

### **Account Requirements**

Generally, KFA requires that our investment management services clients maintain a minimum account size of \$500,000. We may combine family accounts to meet the account size minimum. KFA may reduce or waive the account minimum requirements at our discretion for clients with smaller portfolios based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, account composition, related accounts, and pre-existing client relationships.

KFA may also refer clients that do not meet our minimum account size requirement to a third-party advisor. For more information, see *Third-Party Advisers* in **Item 8** below.

## **ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Methods of Analysis and Investment Strategies**

#### *General Investment Strategies*

KFA may invest client assets using one or a combination of distinct investment strategies, which we detail below. Please note that we may use a third-party service provider to implement certain strategies, with the client's consent.

KFA generally uses diversification to optimize the risk and potential return of a portfolio. More specifically, we utilize multiple asset classes, investment styles, market capitalizations, sectors, and regions to provide diversification. Each portfolio composition is determined in accordance with the clients' investment objectives, risk tolerance, time horizon.

KFA treats each client account uniquely. KFA assists our investment management services clients to develop an investment policy statement designed in an effort to help clients attain their financial goals. This statement typically outlines the client's investment objectives, time horizon, risk tolerance, tax considerations, target asset allocation, policies for rebalancing the portfolio, review frequency, and type of monitoring and reporting. KFA will then make recommendations that are consistent with the client's investment policy statement. KFA selects categories of investments based on the clients' attitudes about risk and their need for capital appreciation or income. Different instruments involve different levels of exposure to risk. Within each investment category,

KFA selects individual securities with characteristics that are most consistent with the client's objectives. We deal with any client restrictions on an account-by-account basis.

Since KFA treats each client account uniquely, client portfolios with similar investment objectives and asset allocation goals may own different securities. Timing and tax factors also influence KFA's investment decisions. Clients who buy or sell securities on the same day may receive different prices.

Each portfolio maintains a target asset allocation. Generally, KFA reviews each portfolio annually to evaluate the extent to which the actual allocation matches the target allocation. Where the variance is considered excessive (as defined by the individual client's Investment Policy Statement), KFA takes appropriate actions (buys and sells) to bring the actual allocation within an acceptable range of the target allocation. We refer to this process as "re-balancing." Since we believe that all investments are subject to cycles, this process of re-balancing offers a systematic process to help us sell when investment categories have been in favor and to buy when they have been out of favor. Consistently buying low and selling high further helps to control risk.

After defining client needs, KFA develops and implements plans for the client's account. Then, we monitor the results and make adjustments as needed. As the initial assumptions change, the plans themselves may need to be adapted. Continuous portfolio management is important in an effort to keep the client's portfolio consistent with the client's objectives.

### Methods of Analysis for Selecting Securities

KFA uses fundamental analysis in the selection of individual securities. Additionally, KFA may use specific strategies or resources in the method of analysis and selection of mutual funds and fixed income securities.

#### *Fundamental Analysis*

Fundamental analysis typically involves analysis of financial statements, the general financial health of companies, and /or the analysis of management or competitive advantages.

#### *Mutual Funds*

In analyzing mutual funds, KFA may use various sources of information including data provided by Morningstar, FTJ FundChoice, LLC, and Dimensional Fund Advisors, LLC.

#### *Equity Funds*

Regarding equity mutual funds, KFA reviews key characteristics such as historical performance, consistency of returns, risk level, size of fund, etc. Expense ratio and other costs are also significant factors in fund selection.

#### *Debt Securities (Fixed Income)*

KFA relies on credit rating agencies such as Standard & Poor's and Moody's to help determine the financial strength of issuing creditors. We also use prospectuses and other relevant information from bond underwriters to help in analysis and selection of fixed income securities.

Regarding fixed income investments, KFA considers the financial strength of the issuer, call provisions, liquidity factors, and bond insurance in selecting bonds for purchase. KFA solicits bids from several underwriters (i.e. brokerages) in an effort to obtain the most attractive yield on purchase.

### Investment Strategies for Managing Portfolios

KFA may use Modern Portfolio Theory, the Fama/French Three-Factor Model, tactical asset allocation, long-term holding, and dollar-cost-averaging strategies in the construction and management of client portfolios.

## *MPT*

KFA uses the Modern Portfolio Theory, which has a basic concept of using diversification in an effort to help optimize the risk and potential return of a portfolio.

## *MPT & Fama/French*

KFA follows the investment principles of Modern Portfolio Theory and the Fama/French Three-Factor Model to construct portfolios. KFA uses the Three-Factor Model to address three components of investing in an effort to increase performance over time:

1. Type of investment;
  - a. Invest in equities;
2. Size of company;
  - a. Purchase smaller companies;
3. Value of company;
  - a. Seek companies with low price-to-book value.

The goal is to implement the latest academic research into clients' portfolios. KFA may use the Fama/French Three-Factor Model and mean-variance analysis, among other methods, when analyzing mutual funds to set the parameters of the asset classes. We also consider the location of a client's investments from a tax-efficiency perspective, specifically utilizing appropriate investment vehicles to address the tax status of the investment(s) held in the account.

## *Tactical Asset Allocation*

In unique circumstances, we may use a tactical asset allocation strategy in the shorter term to deviate from a client's long-term strategic asset allocation target in an effort to take advantage of what we perceive as market pricing anomalies or strong market sectors or to avoid perceived weak sectors. Once KFA achieves the desired short-term opportunities or perceives that opportunities have passed, we generally return a client's portfolio to the original strategic asset mix. There is no guarantee that this strategy will be successful and we make no promises or warranties as to the accuracy of our market analysis.

## *Long-term Holding*

KFA does not generally purchase securities for clients with the intent to sell the securities within 30 days of purchase, as KFA does not use short-term trading as an investment strategy. However, there may be times when KFA will sell a security for a client when the client has held the position for less than 30 days.

KFA does not attempt to time the market nor do we attempt to capture short-term gains. Short term buying and selling of securities is limited to those cases where a purchase has resulted in an unanticipated gain or loss in which we believe that a subsequent sale is in the best interest of the client.

## *Dollar-Cost-Averaging*

Dollar cost averaging involves investing money each month or quarter, to take advantage of price fluctuations in the attempt to get a lower average cost per share.

### Third-Party Advisers

KFA may recommend FTJ FundChoice, LLC (FTJ), a third-party asset allocation and manager selection provider, based on the client's investment objectives and financial situation. FTJ allows KFA to remain as a non-discretionary manager to the client. Advisory fees for clients participating in this program will be charged by the sub-adviser based on the fee payment schedule provided by the sub-adviser. Note that we do not share in the sub-advisory fee. Our fee is separate and in addition to their compensation and will be described to you prior to engagement. However, the combined advisory fees clients pay to KFA and FTJ will not exceed our schedule of fees listed above in **Item 5 - Fees and Compensation**. FTJ's fees are disclosed in the disclosure brochure provided to the client by the sub-adviser.

### **General Risk of Loss Statement**

Prior to entering into an agreement with KFA, the client should carefully consider:

1. That investing in securities involves risk of loss which clients should be prepared to bear;
2. That securities markets experience varying degrees of volatility;
3. That over time the client's assets may fluctuate and at any time be worth more or less than the amount invested; and
4. That clients should only commit assets that they feel are currently unneeded and available to KFA for investment on a long-term basis. This is typically a minimum of five to seven years.

### **Specific Security Risks**

#### General Risks of Owning Securities

The prices of securities held in client accounts and the income they generate may decline in response to certain events taking place around the world. These include events directly involving the issuers of securities held as underlying assets of mutual funds in a client's account, conditions affecting the general economy, and overall market changes. Other contributing factors include local, regional, or global political, social, or economic instability and governmental or governmental agency responses to economic conditions. Finally, currency, interest rate, and commodity price fluctuations may also affect security prices and income.

#### Mutual Funds (Open-end Investment Company)

A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The portfolio of the fund consists of the combined holdings it owns. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate. The price that investors pay for mutual fund shares is the fund's per share net asset value (NAV) plus any shareholder fees that the fund imposes at the time of purchase (such as sales loads).

The benefits of investing through mutual funds include:

#### Professionally Managed

Mutual funds are professionally managed by investment advisers who research, select, and monitor the performance of the securities the fund purchases.

## Diversification

Mutual funds typically have the benefit of diversification, which is an investing strategy that generally sums up as “Don’t put all your eggs in one basket.” Spreading investments across a wide range of companies and industry sectors can help lower the risk if a company or sector fails. Some investors find it easier to achieve diversification through ownership of mutual funds rather than through ownership of individual stocks or bonds.

## Affordability

Some mutual funds accommodate investors who do not have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases, or both.

## Liquidity

At any time, mutual fund investors can readily redeem their shares at the current NAV, less any fees and charges assessed on redemption.

Mutual funds also have features that some investors might view as disadvantages:

### Costs Despite Negative Returns

Investors must pay sales charges, annual fees, and other expenses regardless of how the fund performs. Depending on the timing of their investment, investors may also have to pay taxes on any capital gains distribution they receive. This includes instances where the fund went on to perform poorly after purchasing shares.

### Lack of Control

Investors typically cannot ascertain the exact make-up of a fund’s portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.

### Price Uncertainty

With an individual stock, investors can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling a broker or your investment adviser. Investors can also monitor how a stock’s price changes from hour to hour—or even second to second. By contrast, with a mutual fund, the price at which an investor purchases or redeems shares will typically depend on the fund’s NAV, which the fund might not calculate until many hours after the investor placed the order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

## *Different Types of Funds*

When it comes to investing in mutual funds, investors have literally thousands of choices. Most mutual funds fall into one of three main categories; money market funds, bond funds (also called “fixed income” funds), and stock funds (also called “equity” funds). Each type has different features and different risks and rewards. Generally, the higher the potential return, the higher the risk of loss.

### *Money Market Funds*

Money market funds have relatively low risks, compared to other mutual funds (and most other investments). By law, they can invest in only certain high quality, short-term investments issued by the U.S. Government, U.S. corporations, and state and local governments. Money market funds try to keep their net asset value (NAV), which represents the value of one share in a fund, at a stable \$1.00 per share. However, the NAV may fall below \$1.00 if the fund’s investments perform poorly. Investor losses have been rare, but they are possible. Money market funds pay dividends that generally reflect short-term interest rates, and historically the returns for money market funds

have been lower than for either bond or stock funds. That is why “inflation risk,” the risk that inflation will outpace and erode investment returns over time, can be a potential concern for investors in money market funds.

### *Bond Funds*

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields. Unlike money market funds, the SEC’s rules do not restrict bond funds to high quality or short-term investments. Because there are many different types of bonds, bond funds can vary dramatically in their risks and rewards.

Some of the risks associated with bond funds include:

#### Credit Risk

There is a possibility that companies or other issuers may fail to pay their debts (including the debt owed to holders of their bonds). Consequently, this affects mutual funds that hold these bonds. Credit risk is less of a factor for bond funds that invest in insured bonds or U.S. Treasury Bonds. By contrast, those that invest in the bonds of companies with poor credit ratings generally will be subject to higher risk.

#### Interest Rate Risk

There is a risk that the market value of the bonds will go down when interest rates go up. Because of this, investors can lose money in any bond fund, including those that invest only in insured bonds or U.S. Treasury Bonds. Funds that invest in longer-term bonds tend to have higher interest rate risk.

#### Prepayment Risk

Issuers may choose to pay off debt earlier than the stated maturity date on a bond. For example, if interest rates fall, a bond issuer may decide to “retire” its debt and issue new bonds that pay a lower rate. When this happens, the fund may not be able to reinvest the proceeds in an investment with as high a return or yield.

### *Stock Funds*

Although a stock fund’s value can rise and fall quickly (and dramatically) over the short term, historically stocks have performed better over the long term than other types of investments. This is true for corporate bonds, government bonds, and treasury securities. Overall “market risk” poses the greatest potential danger for investors in stocks funds. Stock prices can fluctuate for a broad range of reasons—such as the overall strength of the economy or demand for particular products or services. Not all stock funds are the same. For example:

#### Growth Funds

Growth funds focus on stocks that may not pay a regular dividend but have the potential for large capital gains.

#### Income Funds

Income funds invest in stocks that pay regular dividends.

#### Small Cap Funds

Funds that invest in stocks of small companies involve additional risks. Smaller companies typically have higher risk of failure, and are not as established as larger blue-chip companies are. Historically, smaller-company stocks have experienced a greater degree of market volatility than the overall market average.

## Mid Cap Funds

Funds that invest in companies with smaller market capitalizations involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies.

## Index Funds

Index funds aim to achieve the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, by investing in all—or perhaps a representative sample—of the companies included in an index.

## International Funds

International investments are subject to additional risks, including currency fluctuation, political instability, and potential illiquid markets.

## Emerging Market Funds

Funds that invest in foreign securities involve special additional risks. These risks include, but are not limited to currency risk, political risk and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

## Sector Funds

Sector funds may specialize in a particular industry segment, such as technology or consumer products stocks. Funds that invest exclusively in one sector or industry involve additional risks. The lack of industry diversification subjects the investor to increased industry-specific risk. For example, products of companies that technology funds invest in may be subject to severe competition and rapid obsolescence.

## REIT Funds

REIT Funds include REITs within the underlying fund holdings. REITs primarily invest in real estate or real estate-related loans. Equity REITs own real estate properties, while mortgage REITs hold construction, development, and/or long-term mortgage loans. REIT investments include illiquidity and interest rate risk.

## Real Estate Funds

Investments in real estate funds are subject to the risks related to direct investment in real estate, such as real estate risk, regulatory risks, concentration risk, and diversification risk.

## TIPS Funds

Treasury Inflation Protection Securities (TIPS) are inflation-indexed securities structured to remove inflation risk. KFA does not utilize individual TIPS, but may recommend mutual funds and exchange traded funds that include TIPS within the underlying fund holdings.

## *Tax Consequences of Mutual Funds*

When investors buy and hold an individual stock or bond, the investor must pay income tax each year on the dividends or interest the investor receives. However, the investor will not have to pay any capital gains tax until the investor actually sells and makes a profit. Mutual funds are different. When an investor buys and holds mutual fund shares, the investor will owe income tax on any ordinary dividends in the year the investor receives or reinvests them. Moreover, in addition to owing taxes on any *personal capital gains* when the investor sells shares, the investor may have to pay taxes each year on *the fund's capital gains*. That is because the law requires mutual funds to distribute capital gains to shareholders if they sell securities for a profit that cannot be offset by a loss.

### Exchange-Traded Funds (ETFs)

An ETF is a type of Investment Company (usually, an open-end fund or unit investment trust) containing a basket of stocks. Typically, the objective of an ETF is to achieve the same return as a particular market index, including sector indexes. An ETF is similar to an index fund in that it will primarily invest in securities of companies that are included in a selected market. Unlike traditional mutual funds, which can only be redeemed at the end of a trading day, ETFs trade throughout the day on an exchange. Like stock mutual funds, the prices of the underlying securities and the overall market may affect ETF prices. Similarly, factors affecting a particular industry segment may affect ETF prices that track that particular sector.

### Closed-end Fund

Closed-end funds generally do not continually offer their shares for sale. Rather, they sell a fixed number of shares at one time, after which the shares typically trade on a secondary market, such as the New York Stock Exchange or the NASDAQ Stock Market. Risk factors pertaining to closed-end funds vary from fund to fund.

### Equity Securities

Equity securities represent an ownership position in a company. Equity securities typically consist of common stocks. The prices of equity securities fluctuate based on, among other things, events specific to their issuers and market, economic and other conditions. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices.

There may be little trading in the secondary market for particular equity securities, which may adversely affect KFA's ability to dispose of such equity securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of equity securities.

### Small Capitalization Equity Securities

Investing in smaller companies may pose additional risks as it is often more difficult to dispose of small company stocks, more difficult to obtain information about smaller companies, and the prices of their stocks may be more volatile than stocks of larger, more established companies. Clients should have a long-term perspective and, for example, be able to tolerate potentially sharp declines in value.

### Debt Securities (Bonds)

Issuers use debt securities to borrow money. Generally, issuers pay investors periodic interest and repay the amount borrowed either periodically during the life of the security and/or at maturity. Alternatively, investors can purchase other debt securities, such as zero coupon bonds, which do not pay current interest, but rather are priced at a discount from their face values and their values accrete over time to face value at maturity. The market prices of debt securities fluctuate depending on such factors as interest rates, credit quality, and maturity. In general, market prices of debt securities decline when interest rates rise and increase when interest rates fall. The longer the time to a bond's maturity, the greater its interest rate risk.

Certain additional risk factors relating to debt securities include:

#### Reinvestment Risk

When interest rates are declining, investors have to reinvest their interest income and any return of principal, whether scheduled or unscheduled, at lower prevailing rates.

## Inflation Risk

Inflation causes tomorrow's dollar to be worth less than today's; in other words, it reduces the purchasing power of a bond investor's future interest payments and principal, collectively known as "cash flows." Inflation also leads to higher interest rates, which in turn leads to lower bond prices.

## Interest Rate and Market Risk

Debt securities may be sensitive to economic changes, political and corporate developments, and interest rate changes. Investors can also expect periods of economic change and uncertainty, which can result in increased volatility of market prices and yields of certain debt securities. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices.

## Call Risk

Debt securities may contain redemption or call provisions entitling their issuers to redeem them at a specified price on a date prior to maturity. If an issuer exercises these provisions in a lower interest rate market, the account would have to replace the security with a lower yielding security, resulting in decreased income to investors.

Usually, a bond is called at or close to par value. This subjects investors that paid a premium for their bond to a risk of lost principal. In reality, prices of callable bonds are unlikely to move much above the call price if lower interest rates make the bond likely to be called.

## Credit Risk

If the issuer of a debt security defaults on its obligations to pay interest or principal or is the subject of bankruptcy proceedings, the account may incur losses or expenses in seeking recovery of amounts owed to it.

## Liquidity and Valuation Risk

There may be little trading in the secondary market for particular debt securities, which may affect adversely the account's ability to value accurately or dispose of such debt securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of debt securities.

KFA attempts to reduce the risks described above through diversification of the client's portfolio and by credit analysis of each issuer, as well as by monitoring broad economic trends and corporate and legislative developments, but there can be no assurance that we will be successful in doing so. Credit ratings for debt securities provided by rating agencies reflect an evaluation of the safety of principal and interest payments, not market value risk. The rating of an issuer is a rating agency's view of past and future potential developments related to the issuer and may not necessarily reflect actual outcomes. There can be a lag between the time of developments relating to an issuer and the time a rating is assigned and updated.

## Obligations Backed by the "Full Faith and Credit" of the U.S. Government

U.S. government obligations include the following types of securities:

### U.S. Treasury Securities

U.S. Treasury securities include direct obligations of the U.S. Treasury, such as Treasury bills, notes, and bonds. For these securities, the U.S. government unconditionally guarantees the payment of principal and interest, resulting in the highest possible credit quality. Fluctuations in interest rates subject U.S. Treasury securities to variations in market value. However, they are paid in full when held to maturity.

## Federal Agency Securities

Certain U.S. government agencies and government-sponsored entities guarantee the timely payment of principal and interest with the backing of the full faith and credit of the U.S. government. Such agencies and entities include The Federal Financing Bank (FFB), the Government National Mortgage Association (Ginnie Mae), the Veterans Administration (VA), the Federal Housing Administration (FHA), the Export-Import Bank (Exim Bank), the Overseas Private Investment Corporation (OPIC), the Commodity Credit Corporation (CCC) and the Small Business Administration (SBA).

## Other Federal Agency Obligations

Additional federal agency securities neither are direct obligations of, nor guaranteed by, the U.S. government. These obligations include securities issued by certain U.S. government agencies and government-sponsored entities. However, they generally involve some form of federal sponsorship: some operate under a government charter; specific types of collateral back some; the issuer's right to borrow from the Treasury supports some; and only the credit of the issuing government agency or entity supports others. These agencies and entities include, but are not limited to the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and the Tennessee Valley Authority and Federal Farm Credit Bank System.

## Municipal Bonds

Municipal bonds are debt obligations generally issued to obtain funds for various public purposes, including the construction of public facilities. Municipal bonds pay a lower rate of return than most other types of bonds. However, because of a municipal bond's tax-favored status, investors should compare the relative after-tax return to the after-tax return of other bonds, depending on the investor's tax bracket. Investing in municipal bonds carries the same general risks as investing in bonds in general. Those risks include interest rate risk, reinvestment risk, inflation risk, market risk, call or redemption risk, credit risk, and liquidity and valuation risk. Investing in municipal bonds carries risk unique to these types of bonds, which may include:

### Legislative Risk

Legislative risk includes the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income.

### Tax-Bracket Changes

Municipal bonds generate tax-free income, and therefore pay lower interest rates than taxable bonds. Investors who anticipate a significant drop in their marginal income-tax rate may benefit from the higher yield available from taxable bonds.

### Liquidity Risk

The risk that investors may have difficulty finding a buyer when they want to sell and may be forced to sell at a significant discount to market value. Liquidity risk is greater for thinly traded securities such as lower-rated bonds, bonds that were part of a small issue, bonds that have recently had their credit rating downgraded or bonds sold by an infrequent issuer. Municipal bonds may be less liquid than other bonds.

### Credit Risk

Credit risk includes the risk that a borrower will be unable to make interest or principal payments when they are due and therefore default. To reduce investor concern, insurance policies that guarantee repayment in the event of default back many municipal bonds.

## AMT

KFA invests in a variety of fixed income securities for clients. For those accounts seeking preservation of capital and current income exempt from taxation, KFA does not invest in municipal bonds subject to the Alternative Minimum Tax (“AMT”) without the expressed prior written permission of the client.

## General Obligation vs. Revenue Bonds

Typically, investors consider General Obligation bonds to be safer than Revenue bonds since the full faith and credit of the issuer backs the interest and principal payments. With revenue bonds, the interest and principal are dependent upon the revenues paid by users of the facility or service. Frequently the issuers of revenue bonds are either private sector corporations (e.g. hospitals) or entities that exist, often in local monopoly form, to provide a public service (e.g. power utilities or public transportation authorities). Consequently, the thought is that the consumer spending that provides the funding or income stream for revenue bond issuers may be more vulnerable to changes in consumer tastes or a general economic downturn compared to a state or city’s ability to raise taxes to pay for its General Obligation commitments.

## Inflation-indexed Bonds

KFA may invest for client accounts in inflation-indexed bonds issued by governments, their agencies or instrumentalities and corporations. The principal amount of an inflation-indexed bond adjusts to changes in the level of the consumer price index. In the case of U.S. Treasury inflation-indexed bonds, the U.S. Government guarantees the repayment of the original bond principal upon maturity (as adjusted for inflation). Therefore, the principal amount of such bonds cannot fall below par even during a period of deflation. However, the current market value of these bonds is not guaranteed and will fluctuate, reflecting the rise and fall of yields.

In certain jurisdictions outside the U.S., the repayment of the original bond principal upon the maturity of an inflation-indexed bond is not guaranteed. This causes the amount of the bond repaid at maturity to be less than par. The interest rate for inflation-indexed bonds is fixed at issuance as a percentage of this adjustable principal. Accordingly, the actual interest income may both rise and fall as the principal amount of the bonds adjusts in response to movements of the consumer price index. For example, typically interest income would rise during a period of inflation and fall during a period of deflation.

## American Depository Receipts (ADRs)

An ADR is a stock that trades in the United States but represents a specified number of shares in a foreign corporation. Investors buy and sell ADRs on American markets just like regular stocks. Banks and brokerage firms issue/sponsor ADRs. ADRs are subject to additional risks of investing in foreign securities, including, but not limited to, less complete financial information available about foreign issuers, less market liquidity, more market volatility, and political instability. In addition, currency exchange-rate fluctuations affect the U.S. dollar-value of foreign holdings. Some ADRs and ordinary shares of foreign securities pay dividends, and many foreign countries impose dividend withholding taxes up to 30%. Depending on a custodian’s ability to reclaim any withheld foreign taxes on dividends, taxable accounts may be able to recoup a portion of these taxes by use of the foreign tax credit. However, tax-exempt accounts, to the extent they pay any foreign withholding taxes, may not be able to utilize the foreign tax credit. Therefore, investors may be unable to recover any foreign taxes withheld on dividends of foreign securities or ADRs.

## Cash and Cash Equivalents

Client accounts may hold cash or invest in cash equivalents, which are the most liquid of investments. Cash and cash equivalents are considered very low-risk investments meaning, there is

little risk of losing the principal investment. Typically, low risk also means low return and the interest an investor can earn on this type of investment is low relative to other types of investing vehicles.

### Master Limited Partnerships (MLPs)

MLPs are publicly traded partnerships that trade mainly on the New York Stock Exchange and/or the NASDAQ, the same as stocks. With a few exceptions, MLPs hold and operate assets related to the transportation and storage of energy (certain MLPs may have commodity risk). Most publicly traded companies are corporations. Corporate earnings are usually taxed twice. The business entity is taxed on any money it makes and then shareholders are taxed on the earnings the company distributes to them.

In the 1980s, Congress allowed public trading of certain types of companies as partnerships instead of as corporations. The main advantage a partnership has over a corporation is that partnerships are “pass through” entities for tax purposes. This means that the company does not pay any tax on its earnings. Distributions are still taxed, but this avoids the problem of double taxation that most publicly traded companies face. Congress requires that any company designated as an MLP has to produce 90% of its earnings from “qualified resources” (natural resources and real estate). Most MLPs are involved in energy infrastructure, i.e. things like pipelines. MLPs are required to pay minimum quarterly distributions to limited partners. A contract establishes the payments, so distributions are predictable. Otherwise, the shareholders could find the company in breach of contract.

MLPs bear three primary risks:

#### Risk of Regulation or Change

The government could step in and change the rules of the game. That can always happen. Since one of the main advantages of these securities is their tax advantages, this poses a considerable risk for an investor.

#### Interest Rate Risk

It is commonly thought that these types of investments do better when interest rates are low, making their yield higher in relation to the safest investments, such as Treasury bills and securities that are guaranteed by the U.S. government. Consequently, MLPs may perform better during periods of declining or relative low interest rates and more poorly during periods of rising or high interest rates.

#### Tax Risk

MLPs are pass-through entities, passing earnings through to the limited partners. Investors must be aware that there are potentially significant tax implications of investing in MLPs and they should consult with their tax advisor before investing in these securities.

### **Financial Planning**

The financial planning tools KFA uses to create financial plans for clients rely on various assumptions, such as estimates of inflation, risk, economic conditions, and rates of return on security asset classes. All return assumptions use asset class returns, not returns of actual investments, and do not include fees or expenses that clients would pay if they invested in specific products.

Financial planning software is only a tool used to help guide KFA and the client in developing an appropriate plan, and we cannot guarantee that clients will achieve the results shown in the plan. Results will vary based on the information provided by the client regarding the client’s assets, risk tolerance, and personal information. Changes to the program’s underlying assumptions or

differences in actual personal, economic, or market outcomes may result in materially different results for the client. Clients should carefully consider the assumptions and limitations of the financial planning software as disclosed on the financial planning reports and should discuss the results of the plan with a qualified investment professional before making any changes in their investment or financial planning program.

If the financial plan includes recommendations for investing in securities, you should understand that investing in securities involves risk of loss, and you should be prepared to bear that risk.

## **ITEM 9 - DISCIPLINARY INFORMATION**

KFA and our personnel seek to maintain the highest level of business professionalism, integrity, and ethics. KFA does not have any disciplinary information to disclose.

## **ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### **Other Affiliated Business**

In addition to investment management and financial planning services, KFA offers additional services. These services do not include investment advice and we do not consider them as part of our advisory business. We offer these services to advisory and non-advisory clients under a separate engagement agreement. Fees for these services are detailed in each client's separate engagement agreement and are independent of and in addition to the advisory services fees we charge to advisory clients.

### **Other Financial Industry Activities**

#### *National Association of Personal Financial Advisors*

Lauren Klein is a member of The National Association of Personal Financial Advisors ("NAPFA"). NAPFA is an organization of fee-only financial advisors. NAPFA membership requires adherence to the *NAPFA Fiduciary Oath* (see in next item below).

KFA may outsource some of its financial planning work. KFA has agreements with providers that include confidentiality provisions.

## **ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

KFA believes that we owe clients the highest level of trust and fair dealing. Further, as part of our fiduciary duty, we place the interests of our clients ahead of the interests of the firm and our personnel. KFA personnel are required to conduct themselves with integrity at all times and follow the principles detailed in the NAPFA Code of Ethics.

#### *NAPFA Code of Ethics*

##### **Objectivity**

NAPFA members strive to be as unbiased as possible in providing advice to clients and NAPFA members practice on a fee-only basis.

##### **Confidentiality**

NAPFA members shall keep all client data private unless authorization is received from the client to share it. NAPFA members shall treat all documents with care and take care when disposing of them. Relations with clients shall be kept private.

## Competence

NAPFA members shall strive to maintain a high level of knowledge and ability. Members shall attain continuing education at least at the minimum level required by NAPFA. Members shall not provide advice in areas where they are not capable.

## Fairness & Suitability

Dealings and recommendation with clients will always be in the client's best interests. NAPFA members put their clients first.

## Integrity & Honesty

NAPFA members will endeavor to always take the high road and to be ever mindful of the potential for misunderstanding that can accrue in normal human interactions. NAPFA members will be diligent to keep actions and reactions so far above board that a thinking client, or other professional, would not doubt intentions. In all actions, NAPFA members should be mindful that in addition to serving our clients, we are about the business of building a profession and our actions should reflect this.

## Regulatory Compliance

NAPFA members will strive to maintain conformity with legal regulations.

## Full Disclosure

NAPFA members shall fully describe method of compensation and potential conflicts of interest to clients and also specify the total cost of investments.

## Professionalism

NAPFA members shall conduct themselves in a way that would be a credit to NAPFA at all times. NAPFA membership involves integrity, honest treatment of clients, and treating people with respect.

## *NAPFA Fiduciary Oath*

The advisor shall exercise his/her best efforts to act in good faith and in the best interests of the client. The advisor shall provide written disclosure to the client prior to the engagement of the advisor, and thereafter throughout the term of the engagement, of any conflicts of interest, which will or reasonably may compromise the impartiality or independence of the advisor.

The advisor, or any party in which the advisor has a financial interest, does not receive any compensation or other remuneration that is contingent on any client's purchase or sale of a financial product. The advisor does not receive a fee or other compensation from another party based on the referral of a client or the client's business.

## What the Fiduciary Oath means to KFA clients

- I shall always act in good faith and with candor.
- I shall be proactive in my disclosure of any conflicts of interest that may impact you.
- I shall not accept any referral fees or compensation that is contingent upon the purchase or sale of a financial product.

## Personal Trading Practices

KFA and our personnel may purchase or sell securities for themselves that we also recommend to clients. This includes related securities (e.g., warrants, options, or futures). This presents a potential conflict of interest as we may have an incentive to favor our personal trades over client transactions or use the information about the transactions we intend to make for clients to our personal benefit.

Our policies to address these conflicts include the following:

1. The client receives the opportunity to act on investment recommendations prior to and in preference to accounts of KFA and our personnel.
2. KFA prohibits trading in a manner that takes personal advantage of price movements caused by client transactions.
3. If we wish to purchase or sell the same security as we recommend or take action to purchase or sell for a client, we will not do so until the custodian fills client orders. As a result of this policy, it is possible that clients may receive a better or worse price than KFA or any employee for the same security on the same day as a client or one or more days before or after the Client's transaction.

## **ITEM 12 - BROKERAGE PRACTICES**

### **Factors Considered in Selecting Broker-Dealers for Client Transactions**

KFA requires clients to open one or more broker-dealer/custodian (“custodian” or “custodial”) accounts in their own name at an independent custodian of the client’s choice. For clients in need of brokerage or custodial services, KFA may recommend the use of Shareholders Service Group (“SSG”) and Schwab Advisor Services™ a division of Charles Schwab & Co., Inc. (“Schwab”), registered broker-dealers, Members SIPC. Upon client inquiry, we may also recommend other brokerage or custodial services. The assets in the investment account will be held for safekeeping with custodian. The client will enter into a separate agreement with the custodian to custody the assets. KFA is independently owned and operated, and unaffiliated with any custodian.

KFA considers several factors in recommending a custodian to a client. Factors that KFA may consider when recommending a custodian may include availability of funds, ease of use, reputation, service execution, pricing and financial strength. KFA may also take into consideration the availability of the products and services received or offered (detailed below) by the custodian.

#### *Research and Other Soft Dollar Benefits*

KFA may receive from particular custodians, without cost (or at a discount), support services and/or products that benefit KFA but may not directly benefit our clients’ accounts. The custodians we use make available products and services that may be used to service all or some substantial number of KFA’s accounts, including accounts not maintained with these custodians. The custodians make these products and services available to us on an unsolicited basis, at no charge to us so long as KFA maintains a minimum amount of our clients’ assets in accounts at each custodian we recommend.

The custodians we recommend make available products and services that assist KFA in managing and administering clients’ accounts including software and other technology that:

1. provide access to client account data (such as trade confirmations and account statements);
2. facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
3. provide research, pricing and other market data;
4. facilitate payment of KFA’s fees from our clients’ accounts; and
5. assist with back-office functions, recordkeeping, and client reporting.

The custodians also offer other services intended to help KFA manage and further develop our business enterprise. These services may include:

1. compliance, legal and business consulting;
2. publications and conferences on practice management and business succession; and
3. access to employee benefits providers, human capital consultants, and insurance providers.

The custodians we recommend may make available, arrange, and/or pay third-party vendors for the types of services provided to KFA. The custodians may discount or waive fees they would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to KFA. The custodians may also provide other benefits such as educational events or occasional business entertainment of KFA personnel.

Because of KFA's professional relationships with SSG, Schwab, and TD Ameritrade, these entities may offer KFA discounts for services provided by outsource providers. As part of our fiduciary duty to clients, KFA endeavors at all times to put the interests of our clients first. Clients should be aware, however, that the receipt of economic benefits by KFA or our personnel in and of itself creates a potential conflict of interest and may indirectly influence KFA's recommendation of custodians for custody and brokerage services.

#### Brokerage for Client Referrals

KFA does not receive client referrals from any broker-dealer or third party in exchange for using that broker-dealer or third party.

#### Directed Brokerage

##### Investment Management Services

KFA will not allow clients to direct KFA to use a specific broker-dealer to execute transactions. Clients must use the broker-dealers that KFA recommends. Not all investment advisers require their clients to direct brokerage. By requiring clients to use SSG or Schwab, KFA believes we may be able to more effectively manage the client's portfolio, achieve favorable execution of client transactions, and overall lower the costs to the portfolio.

##### Financial Planning Services

Clients are free to use any qualified custodian/broker-dealer for transactions pertaining to the implementation of any financial plan we provide.

#### **Aggregation and Allocation of Transactions**

KFA enters transactions for each client independently and does not aggregate (combine) client orders. Aggregating trades may benefit clients by purchasing or selling in larger blocks in an attempt to take advantage of better pricing or lower trading costs. We do not feel that clients are at a disadvantage because we do not aggregate client orders. KFA primarily uses mutual funds to manage client accounts. Mutual funds are priced once daily. As the daily price is the same for each investor, we have no opportunity to obtain better pricing through aggregating. Additionally, the broker-dealer/custodians charge each account an individual transaction fee regardless of whether we aggregate or not. This prevents us from lowering trading costs through aggregation.

## **ITEM 13 - REVIEW OF ACCOUNTS**

Lauren S. Klein, CFP®, Investment Adviser Representative, performs all account reviews.

## Managed Account Reviews

We manage portfolios on a continuous basis and generally review all positions in client accounts at least quarterly. We offer account reviews to clients on an annual basis. We base reviews on a variety of factors. These factors may include but are not limited to stated investment objectives, economic environment, outlook for the securities markets, and the merits of the securities in the accounts.

In addition, we may conduct a special review of an account based one or more of the following:

1. A change in the client's investment objectives, guidelines and/or financial situation;
2. Changes in diversification;
3. Tax considerations; or
4. Material cash deposits or withdrawals.

## Financial Plan Reviews

KFA recommends that clients meet with us at least annually to discuss any changes in the client's circumstances so we may make necessary updates to the financial plan. We also work with clients on an ongoing basis as requested by the client. It is the client's responsibility to initiate all financial planning services reviews.

## Account Reporting

Each investment management services client receives a written statement from the custodian that includes an accounting of all holdings and transactions in the account for the reporting period. In addition, KFA provides written reports to all discretionary investment management services clients detailing performance in accounts on a quarterly basis. KFA may also provide additional reporting as agreed upon by KFA and the client on a case-by-case basis.

Financial planning services clients do not receive reporting from KFA.

## ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION

### Outside Compensation

KFA may refer clients to unaffiliated professionals for specific needs, such as real estate and investment analysis and management, estate planning, divorce litigation, bookkeeping, care management, venture capital investments, and insurance planning. In turn, these professionals may refer clients to KFA for investment management and/or financial planning needs. At KFA, we do not have any agreements with individuals or companies that we refer clients to, and we do not receive any compensation for these referrals. However, it could be concluded that KFA is receiving an indirect economic benefit from the arrangement, as the relationships are mutually beneficial. For example, there could be an incentive for us to recommend services of firms who refer clients to KFA.

KFA only refers clients to professionals we believe are competent and qualified in their field. However, it is ultimately the client's responsibility to evaluate the provider. It is solely the client's decision whether to engage a recommended firm. Clients are under no obligation to purchase any products or services through these professionals, and KFA has no control over the services provided by another firm. Clients who chose to engage these professionals will sign a separate agreement with the other firm. Fees charged by the other firm are separate from and in addition to fees charged by KFA.

If the client desires, KFA will work with these professionals or the client's other advisers (such as an accountant, attorney, or other investment adviser) to help ensure that the provider understands the client's financial plan and to coordinate services for the client. KFA will never share information with an unaffiliated professional unless first authorized by the client.

### Third-Party Advisers

KFA may recommend FTJ FundChoice, LLC (FTJ), a third-party asset allocation and manager selection provider, based on the client's investment objectives and financial situation. FTJ allows KFA to remain as a non-discretionary manager to the client. Advisory fees for clients participating in this program will be charged by the sub-adviser based on the fee payment schedule provided by the sub-adviser. Note that we do not share in the sub-advisory fee. Our fee is separate and in addition to their compensation and will be described to you prior to engagement. However, the combined advisory fees clients pay to KFA and FTJ will not exceed our schedule of fees listed above in **Item 5 - Fees and Compensation**. FTJ's fees are disclosed in the disclosure brochure provided to the client by the sub-adviser.

### **ITEM 15 - CUSTODY**

KFA does not take physical custody of client funds or securities. For the convenience of the client, we will set up quarterly fee deduction ability from the client's account, when authorized by the client.

KFA will not have custody of our clients' funds or securities when the clients authorize us to deduct our management fees directly from the client's account if all of the following requirements are met:

1. Clients' accounts are held by a qualified custodian (generally a broker-dealer, bank, trust company, or other financial institution).
2. Clients will receive statements directly from their qualified custodian at least quarterly. The statements will reflect the client's funds and securities held with the qualified custodian as well as any transactions that occurred in the account, including the deduction of KFA'S fee. If you are not receiving at least quarterly custodial account statements, please contact us at the number on the cover page of this brochure.
3. Each billing period, we send clients a statement showing the amount of the fee, the value of the client's assets that the fee was based on, and how we calculated the fee.
4. We send only the amount of our fee to the custodian.
5. It is the client's responsibility to verify the accuracy of the fee calculation. The custodian will not determine whether the fee is properly calculated.

### **ITEM 16 - INVESTMENT DISCRETION**

KFA has full discretion to decide the specific security to trade, the quantity, and the timing of transactions for client accounts. KFA will not contact clients before placing trades in their account, but clients will receive confirmations directly from the broker for any trades placed. Clients grant us discretionary authority in the contracts they sign with us. Clients also give us trading authority over their accounts when they sign the custodian paperwork.

However, certain client-imposed conditions may limit KFA's discretionary authority, such as where the client prohibits transactions in specific security types. See also **Item 4 - Tailored Services and Client Imposed Restrictions**, above.

### **ITEM 17 - VOTING CLIENT SECURITIES**

#### Proxy Voting

KFA does not accept or have the authority to vote client securities. KFA will not be deemed have proxy voting authority solely as a result of providing advice or information about a particular proxy

vote to a client. Clients will receive their proxies or other solicitations directly from their custodian or a transfer agent.

### *ERISA*

For accounts subject to ERISA, an authorized plan fiduciary other than KFA will retain proxy voting authority. Our investment advisory agreement and/or the plan's written documents will evidence and outline this authority.

### *Mutual Funds*

The investment adviser that manages the assets of a registered investment company (i.e., mutual fund) generally votes proxies issued on securities held by the mutual fund.

### *Class Actions*

KFA does not instruct or give advice to clients on whether or not to participate as a member of class action lawsuits and will not automatically file claims on the client's behalf. However, if a client notifies us that they wish to participate in a class action, we will provide the client with any transaction information pertaining to the client's account needed for the client to file a proof of claim in a class action.

## **ITEM 18 - FINANCIAL INFORMATION**

Registered investment advisers are required in this item to provide clients with certain financial information or disclosures about the firm's financial condition. KFA does not require the prepayment of more than \$500 in fees per client, six months or more in advance, and does not foresee any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.

## **ITEM 19 - REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

### **Principal Executive Officers and Management Persons**

We list the principal executive officers and management persons of KFA under ***Item 4 - Advisory Business***, above. A description of their education and business background is included in the brochure supplement, Form ADV Part 2B, which is provided to clients initially. Clients can also get a copy of the brochure supplement for KFA's officers at any time by contacting us at the address or phone number on the cover page of this brochure.

### **Other Business Activities**

KFA's also provides tax preparation services. See ***Tax Preparation Services*** in ***Item 4***, above.

### **Performance-Based Fees**

KFA does not charge performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a client.

### **Legal and Disciplinary Issues**

KFA and our personnel seek to maintain the highest level of business professionalism, integrity, and ethics. Neither KFA nor our personnel have any disclosable legal or disciplinary events on our records.

### **Arrangements with Securities Issuers**

KFA and our personnel have no relationships or arrangements with issuers of securities.

# Form ADV, Part 2B Brochure Supplement

**Lauren S. Klein**

**Jamie M. Klein**

**Klein Financial Advisors, Inc.**

4299 MacArthur Boulevard

Suite 100

Newport Beach, CA 92660

(949) 477-4990

This brochure supplement provides information about Lauren S. Klein and Jamie M. Klein that supplements the Klein Financial Advisors, Inc. brochure. You should have already received a copy of that brochure. Please contact Lauren S. Klein if you did not receive our brochure or if you have any questions about the contents of this supplement. Additional information about Lauren S. Klein is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Click on the "Investment Adviser Search" link and then search for "Individual" using the individual's CRD number Lauren (4692359).

## Lauren S. Klein

### ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

Lauren S. Klein, President, b. 1948

#### *Education:*

- MBA, Pepperdine University, 1987
- BS, Accounting, Fairleigh Dickinson University, 1973
- Certified Divorce Financial Analyst (CDFA™), Institute for Divorce Financial Analysts™, 2006
- Enrolled Agent #79429, 2004
- Certified Financial Planner (CFP®) #79092, Certified Financial Planner Board of Standards, Inc., 2003

#### *Business Background:*

- Klein Financial Advisors, Inc., Newport Beach, CA, President, Investment Adviser Representative, 09/2003 - present
- Lauren S. Klein, CFP®, Irvine, CA, Principal, Tax Preparer and Business Consultant, 09/1999 - 07/2004
- Avery Dennison, Brea, CA, Director of Finance, Controller, 03/1984 - 09/1999

#### Professional Designations

##### *Certified Financial Planner*

The Certified Financial Planner™ and CFP® (collectively, the “CFP® marks”) are professional certification marks granted in the United States by Certified Financial Planner Board of Standards, Inc. (“CFP® Board”). The CFP® certification is a voluntary certification; no federal or state law or regulation requires financial planners to hold CFP® certification. The CFP® is recognized in the United States and a number of other countries for its (1) high standard of professional education; (2) stringent code of conduct and standards of practice; and (3) ethical requirements that govern professional engagements with clients.

To earn the credential, each CFP® candidate must have a bachelor’s degree (or higher) from an accredited college or university and three years of full-time personal financial planning experience. In addition, candidates must take the CFP® Certification examination and complete a CFP® -board registered program or hold an accepted designation, degree, or license. Every two years, CFP® certificate holders must complete a minimum of 30 hours of continuing education. More information regarding the CFP® is available at <http://www.cfp.net/default.asp>.

##### *Enrolled Agent*

An enrolled agent (EA) is a person who has earned the privilege of practicing, that is, representing taxpayers, before the Internal Revenue Service. Enrolled agents, like attorneys and certified public accountants (CPAs), are unrestricted as to which taxpayers they can represent, what types of tax matters they can handle, and which IRS offices they can practice before.

There are two tracks to becoming an enrolled agent. The two tracks are:

- Written examination. You can become an enrolled agent by demonstrating special competence in tax matters by taking a written examination. This track requires that you -
  - Apply to take the Special Enrollment Examination (SEE);
  - Achieve passing scores on all parts of the SEE;
  - Apply for enrollment; and
  - Pass a background check to ensure that you have not engaged in any conduct that would justify the suspension or disbarment of an attorney, CPA, or enrolled agent from practice before the IRS.
- IRS experience. You can become an enrolled agent by virtue of past service and technical experience with the IRS that qualifies you for enrollment. This track requires that you -
  - Possess the years of past service and technical experience;
  - Apply for enrollment; and
  - Pass a background check to ensure that you have not engaged in any conduct that would justify the suspension or disbarment of an attorney, CPA, or enrolled agent from practice before the IRS.

More information regarding enrolled agents is available at <http://www.irs.gov>.

### *Certified Divorce Financial Analyst (CDFA™)*

Certified Divorce Financial Analyst (CDFA™) professionals must develop their theoretical and practical understanding and knowledge of the financial aspects of divorce by completing a comprehensive course of study approved by the Institute for Divorce Financial Analysts™ (IDFA™). Examination

CDFA™ practitioners must pass a four-part Certification Examination that tests their understanding and knowledge of the financial aspects of divorce. In addition, the practitioner must demonstrate the practical application of this knowledge in the divorce process.

As a final step to certification, CDFA™ practitioners agree to abide by a strict code of professional conduct known as the IDFA™'s Code of Ethics and Professional Responsibility, which sets forth their ethical responsibilities to the public, clients, employers, and other professionals. The IDFA™ may perform a background check during this process and each candidate for CDFA™ certification must disclose any investigations or legal proceedings relating to his or her professional or business conduct.

Once certified, CDFA™ practitioners are required to maintain technical competence and fulfill ethical obligations. Every two years, they must complete a minimum of twenty (20) hours of continuing education, ten (10) of which are specifically related to the field of divorce. In addition, to the biennial continuing education requirement, all CDFA™ practitioners must voluntarily disclose any public, civil, criminal or disciplinary actions that may have been taken against them during the past two years as part of the renewal process.

CDFA™ professionals must have two year's minimum experience in a financial or legal capacity prior to earning the right to use the CDFA™ certification mark. More information regarding the CDFA™ is available at <https://www.institutedfa.com/>.

**ITEM 3 - DISCIPLINARY INFORMATION**

Lauren S. Klein has no disciplinary history to disclose.

**ITEM 4 - OTHER BUSINESS ACTIVITIES**

Lauren S. Klein has no other business activities.

**ITEM 5 - ADDITIONAL COMPENSATION**

Lauren S. Klein's compensation comes from her regular salary and ownership of KFA.

**ITEM 6 - SUPERVISION**

Lauren S. Klein is the President of KFA and supervises all employees.

**ITEM 7 - REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Lauren S. Klein has no additional disclosures.

## **Jamie M. Klein**

### **ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE**

**Jamie M. Klein**, Operations Manager, b. 1972

*Education:*

- BA, Criminal Justice, Chapman University, 2007
- Orange Coast College, 2005-2007
- California State University, Fullerton, 1991-1992

*Business Background:*

- Klein Financial Advisors, Inc., Newport Beach, CA, Operations Manager, 05/2009 - present
- Le Beach Club, Inc., Redondo Beach, CA, Office Manager, 03/2008 - 05/2009
- DCX Chol Enterprises, Inc., Purchasing Manager, Los Angeles, CA, 03/2006 - 02/2008

### **ITEM 3 - DISCIPLINARY INFORMATION**

Jamie M. Klein has no disciplinary history to disclose.

### **ITEM 4 - OTHER BUSINESS ACTIVITIES**

Jamie M. Klein provides is a Notary Public. This service is provided at no charge to clients.

### **ITEM 5 - ADDITIONAL COMPENSATION**

Jamie M. Klein receives compensation for providing Notary Public service, but this income is not more than 10% of the income earned through KFA.

### **ITEM 6 - SUPERVISION**

Lauren S. Klein, President, is responsible for supervising Jamie M. Klein's activities. Lauren S. Klein monitors the support provided by Jamie M. Klein for consistency with client objectives and KFA's policies. In addition, Lauren S. Klein reviews reports prepared by Jamie M. Klein before we send them to clients. Lauren S. Klein can be reached by calling (949) 477-4990.

### **ITEM 7 - REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Jamie M. Klein has no additional disclosures.

## PRIVACY STATEMENT

Klein Financial Advisors, Inc. is an independent financial planning and wealth management firm and is committed to keeping the confidential information provided to our firm in the strictest confidence.

To fulfill its responsibilities to you, Klein Financial Advisors, Inc. requires that you provide current and accurate financial and personal information. We will protect the information you have provided in a manner that is safe, secure, and professional. Klein Financial Advisors, Inc. and its employees are committed to protecting your privacy and to safeguarding that information.

### **Safeguarding Client Documents**

We collect non-public client data in checklists, forms, written notations, and documentation provided to us by our clients for evaluation, registration, licensing or related consulting services. We also create internal lists of such data. Information we collect includes personal information such as your name, address, phone number, social security number, assets, income, and other financial and family information, and account information such as account numbers, holdings, balances, transaction history and other financial and investment activities.

During regular business hours, access to client records is monitored so that only those with approval may access the files. During hours in which the company is not in operation, the client records will be locked. Furthermore, the computers and servers in which we store personal and financial client information are kept in a secure environment.

Only authorized individuals may obtain personal and financial client information. No individual with authorization to access personal and financial client information will share that information in any manner without the specific consent of a firm principal. Failure to observe Klein Financial Advisors, Inc.'s procedures regarding client and consumer privacy will result in disciplinary action and may lead to termination.

### **Sharing Nonpublic Personal and Financial Information**

Klein Financial Advisors, Inc. is committed to the protection and privacy of its current and former clients' and consumers' personal and financial information. Klein Financial Advisors, Inc. will not share such information with an affiliated or non-affiliated third party except:

- When necessary to complete a transaction in a client account, such as with the clearing firm or account custodians;
- When required to maintain or service a client account;
- To resolve client disputes or inquiries;
- With persons acting in a fiduciary or representative capacity on behalf of the client;
- With rating agencies, persons assessing compliance with industry standards, or the attorneys, accountants and auditors of the firm;
- In connection with a sale or merger of Klein Financial Advisors, Inc.;
- To protect against or prevent actual or potential fraud, identity theft, unauthorized transactions, claims or other liability;
- To comply with federal, state or local laws, rules and other applicable legal requirements;

- In connection with a written agreement to provide investment management or advisory services when the information is released for the sole purpose of providing the products or services covered by the agreement;
- In an circumstances with the client's instruction or consent; or
- Pursuant to any other exceptions enumerated in the California Information Privacy Act.

### **Opt-Out Provisions**

It is not a policy of Klein Financial Advisors, Inc. to share nonpublic personal and financial information with affiliated or non-affiliated third parties except under the circumstances noted above. Since sharing under the circumstances noted above is necessary to service client accounts or is mandated by the law, there are no allowances made for clients to opt out.

If you feel at any time that Klein Financial Advisors, Inc. is not abiding by this policy you should contact us immediately at (949) 477-4990 or email us at [info@kleinadvisors.com](mailto:info@kleinadvisors.com).