

# Scott Smith Financial, Inc.

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## **FORM ADV PART 2A DISCLOSURE BROCHURE**

*This disclosure brochure provides clients with information about the qualifications and business practices of Scott Smith Financial, Inc., a registered investment adviser. It also describes the services Scott Smith Financial, Inc. provides as well as background information on those individuals who provide investment advisory services on behalf of Scott Smith Financial, Inc. Please contact Scott Smith Financial, Inc. at (248) 946-4515 if you have any questions about the contents of this disclosure brochure.*

*The information in this disclosure brochure has not been approved or verified by the U.S. Securities and Exchange Commission or any state securities authority. Registration does not imply that Scott Smith Financial, Inc. or any individual providing investment advisory services on behalf of Scott Smith Financial, Inc. possess a certain level of skill or training.*

*Information on the disciplinary history and the registration of Scott Smith Financial, Inc. and its associated persons is available on the Internet at [www.adviserinfo.sec.gov/IAPD/](http://www.adviserinfo.sec.gov/IAPD/). You can search this site by a unique identifying number, known as a CRD number. The CRD number for Scott Smith Financial, Inc. is 138393.*

## **Item 2 – Material Changes**

This item discusses specific material changes to the Scott Smith Financial, Inc. disclosure brochure. Pursuant to current regulations, Scott Smith Financial, Inc. will ensure that clients receive a summary of any material changes to this and subsequent disclosure brochures within 120 days of the close of its fiscal year which occurs at the end of the calendar year. Scott Smith Financial, Inc. may further provide other ongoing disclosure information about material changes as necessary.

Scott Smith Financial, Inc. will also provide clients with a new disclosure brochure as necessary based on changes or new information, at any time, without charge.

Scott Smith Financial, Inc. has made the following material change to this disclosure brochure since the date of its last annual amendment filing (January 24, 2021):

Scott Smith Financial, Inc. has transitioned its investment adviser registration from the State of Michigan to the U.S. Securities and Exchange Commission.

## **Item 4 – Advisory Services**

Scott Smith Financial, Inc. no longer provides Investment Consulting Services or Non-Discretionary Investment Management Services to new clients.

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## **Item 4 - Advisory Business**

### **A. The Company**

Scott Smith Financial, Inc. (“SSF” or the “firm”), a Michigan corporation founded in 2005, has been registered with U.S. Securities and Exchange Commission (“SEC”) since March, 2021. SSF was registered with the State of Michigan from January 2006 to March, 2021.

The sole owner of SSF is D. Scott Smith.

### **B. Advisory Services**

SSF offers the following services to individuals, including high net worth individuals, pension and profit sharing plans, trusts, small businesses and estates:

#### Asset Management Program

The SSF Asset Management Program is a wrap fee asset allocation program sponsored by SSF (the “SAM Wrap Program”). The client retains SSF and an SSF investment adviser representative (“Adviser Representative”) for the purpose of opening an investment advisory account and participating in the SAM Wrap Program. SSF will invest participating client assets in one or more diversified asset allocation models consisting of open-end investment companies (commonly referred to as mutual funds) and closed-end investment companies (commonly referred to as exchange-traded funds or ETFs) in exchange for an all-inclusive asset-based wrap fee (“Wrap Fee”).

SSF offers SAM Wrap Program asset allocation models containing mutual funds and ETFs in a broad range of asset classes and market sectors, including domestic stocks, international stocks, global bonds, and alternative investments. Neither SSF nor any of its affiliates serve as investment adviser to any of the investment company products included in portfolio assets. SAM Wrap Program portfolios range from conservative to aggressive. The client’s Adviser Representative assists the client in selecting the asset allocation model that best meets the client’s needs. Clients’ grant SSF limited discretionary authority in the management of their SAM Wrap Program portfolios and individual portfolios may or may not represent the overall objectives of the client’s total investment assets.

The Adviser Representative will consider the client’s financial situation, goals and investment objectives, risk tolerance, time horizon, liquidity needs, and other relevant factors, as described by the client in selecting the client’s asset allocation model. SSF does not provide tax or legal advice. The client is instructed to seek advice from a tax or legal adviser before making an investment decision. The client should inform his or her Adviser Representative if changes occur in investment objectives or financial situation.

All clients participating in SAM Wrap Program are provided with and urged to review the SSF Wrap Fee Program Brochure.

#### Investment Management Services

SSF, through its Adviser Representatives, offers investment management services based on the individual objectives of each specific client portfolio. SSF offers clients ongoing investment management services determined through individual investment goals, time horizons, objectives and risk tolerance. Investment strategies, investment selection, assets

allocation, portfolio monitoring and the overall investment program will be based on the above factors. Investment management services include, among other things, basic financial planning consisting of giving advice regarding asset allocation and the selection of investments. SSF provides investment management on a discretionary basis only. Clients will be required to give SSF authority to manage the client's assets in accordance with what SSF deems to be in the client's best interest based on the client's investment objectives and guidelines. Clients will retain individual ownership of all securities in their account.

As part of this service, each client portfolio is tailored to their particular investment needs and circumstances. This includes allocating assets based on the client's investment needs and a risk strategy (from conservative to aggressive), which is selected in conjunction with the client and incorporated into the account agreement. The available risk strategies correlate to asset allocation models developed by SSF based on target allocations for various asset classes and sub-classes. SSF selects investments for the client's account that are consistent with the selected risk strategy and that pass a series of quantitative and qualitative filters. Depending on the specific engagement, the types of securities that the client's particular Adviser Representative may purchase and sell including, but are not limited to, mutual funds, ETFs, equities, and fixed income securities.

### Financial Planning Services

If a client desires to obtain financial planning apart from the basic planning services provided as part of portfolio management services, SSF also provides financial planning services as a stand-alone service. Clients will receive a written financial plan, providing the client with a detailed outline designed to achieve their stated financial goals and objectives.

In general the plan will address any or all of the following:

- *Personal*: Family records, budgeting, personal liability, estate information and financial goals.
- *Tax and Cash Flow*: Income tax spending analysis and planning for past and future years.
- *Death and Disability*: Cash needs at death, income needs of surviving dependents, and estate planning.
- *Retirement*: Strategies and investment plans to help client achieve their retirement goals.
- *Investments*: Analysis of investment alternatives and their effect on a client's portfolio.

Information on clients will be gathered by in-depth personal interviews and a review of personal financial information. Gathering data concerning current financial status, future requirements, risk appetite and goals is essential. Based upon this thorough review, a written plan is prepared for the client and it is recommended that the client review this plan with tax accountants, attorneys and other professional service providers.

Should a client choose to implement the financial planning recommendations made by SSF, SSF may recommend its own services or that of other professionals (*i.e.*, attorney, accountant, insurance agent, and/or stockbroker). Clients are advised that a conflict of interest exists if SSF recommends its own services. The client is under no obligation to act upon any of the recommendations made by SSF under a financial planning engagement and/or engage the services of any such recommended professional, including SSF or its

Adviser Representatives. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation made by SSF or its Adviser Representatives. SSF shall cooperate with any attorney, accountant, broker or other adviser chosen by the client with regard to implementation of any such recommendations.

### Retirement Plan Services

SSF-RP provides both fiduciary and non-fiduciary services as a consultant to plan sponsors, named fiduciaries, plan trustees, and plan committees relative to employee benefit plans, including, but not limited to, 401(k) plans, 403(B) plans, defined benefit plans, profit-sharing plans, money purchase pension plans and similar plans offered by sponsoring entities to their employees (the “Plan”). In providing services to a plan and/or its participants, SSF acts as a non-discretionary fiduciary of the Plan as defined in Section 3(21) under ERISA.

As part of these services, SSF will typically advise the plan fiduciaries on matters related to the Plan. These consulting services, some of which are discussed below, may be provided separately or in combination with one another, and may involve the coordination of multiple vendors and/or third party advisors to the Plan, depending on the needs of the sponsor. The specific details of any engagement to provide consulting services are agreed upon in writing prior to commencement of the engagement and are subject to the terms of the written investment consulting and advisory agreement. SSF may consult on a variety of Plan matters, including, but not limited to:

- Plan governance issues, policies and procedures, board resolutions and the development or review of an Investment Policy Statement.
- Plan service provider reviews, evaluations and searches.
- Investment options: searches, recommendations, monitoring and review
- Employee education by providing general information on the funds available under the plan and other general investment information aimed at helping participants make better choices for themselves from among the alternatives available under the plan.
- Fee benchmarking;
- Fiduciary file development and record keeping.

SSF may also provide other information aimed at assisting Plan sponsors or trustees in fulfilling their obligations to the plan. For example: information on pending or recent legislative changes that may impact the Plan, Plan participants and beneficiaries.

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

SSF’s investment management services are tailored to meet the specific needs of each client. In order to provide appropriately individualized services, SSF’s Adviser Representatives will work with the client to obtain information regarding the client’s financial circumstances, investment objectives, overall financial condition, income and tax status, personal and business assets, risk profile and other information regarding the client’s financial and investment needs.

At least annually, an Adviser Representative will review with clients their financial circumstances, investment objectives and risk profile. In order for SSF to provide effective investment advisory services, it is critical that clients provide accurate and complete information to SSF and inform SSF anytime such information needs to be updated or

anytime there is a change in their financial circumstances, investment objectives and/or risk profile.

Generally, clients are permitted to impose reasonable restrictions on investing in certain securities or types of securities in their advisory accounts, provided, however, that some restrictions may not be accommodated when utilizing Exchange Traded Funds, mutual funds or with respect to certain third-party investment managers. In addition, a restriction request may not be honored if it is fundamentally inconsistent with SSF's investment philosophy, runs counter to the client's stated investment objectives, or would prevent SSF from properly servicing client accounts.

#### **D. Wrap Fee Programs**

As detailed in the section above and in SSF's Wrap Fee Program Brochure, SSF offers the SAM Wrap Program. Clients in the SAM Wrap Program pay a single annualized fee, based upon a percentage of the market value of all SAM Wrap Program assets, for participation in the SAM Wrap Program. The SAM Wrap Program may cost clients more or less than purchasing such services separately. The wrap fee includes the SSF management fee, trading costs, and annual custodial fees if any. Transaction fees relating to the execution of securities transactions within the client's account are paid by SSF.

Clients that participate in the SAM Wrap Program will be given the SSF Wrap Fee Brochure as part of their initial meeting with SSF if the Adviser Representative determines that the SAM Wrap Program is the best fit for their needs.

#### **E. Assets Under Management**

As of December 31, 2020, SSF has the following assets under management:

| <b>Total Assets Under Management</b> | <b>Discretionary Assets</b> | <b>Non-Discretionary Assets</b> |
|--------------------------------------|-----------------------------|---------------------------------|
| \$120,093,899.00                     | \$102,757,571.00            | \$ 17,336,238.00                |

### **Item 5 - Fees And Compensation**

#### **A. Advisory Fees**

##### Asset Management Program Fees

For its services provided pursuant to the SAM Wrap Program, SSF receives a wrap fee based on the value of assets under management (the "Wrap Fee"). The amount of the fee will be set out in the specific client agreement executed by the client at the time the relationship is established.

The Wrap Fee is set according to the following tiered fee schedule:

| <b>For the Portion of the Account that is:</b> | <b>Annual Fee</b> |
|--|-------------------|
| Up to \$250,000                                | 1.5%              |
| \$251,000 to \$500,000                         | 1.25%             |
| \$500,001 to \$1,000,000                       | 1.00%             |
| \$1,000,001 to \$3,000,000                     | 0.75%             |
| Above \$3,000,000                              | Negotiable        |

The Wrap Fee is based on the average daily value of assets managed during the calendar quarter. Quarterly Wrap Fees deducted from the clients' account by the custodian will be outlined in SSF's fee invoice as fees are withdrawn. The first payment is calculated based on the number of days assets are placed in the account during a calendar quarter. Generally, Wrap Fees are deducted from the client's account no later than the fifteenth (15th) day after the end of each quarter, in arrears. If an account is terminated prior to the end of a calendar quarter, the terminating client will pay the Wrap Fees up to the termination date. Clients who cancel services within five business days of the contract date will not be charged the Wrap Fee.

#### Investment Management Fees

For its investment management services, SSF receives a management fee typically based on the value of assets under management (the "Management Fee"). The amount of the Management Fee will be set out in the specific client agreement executed by the client at the time the relationship is established. The Management Fee is set according to the following tiered fee schedule:

| <b>For the Portion of the Account that is:</b> | <b>Annual Fee</b> |
|--|-------------------|
| \$0 to \$250,000                               | 1.6%              |
| \$251,000 to \$500,000                         | 1.5%              |
| \$500,001 to \$1,000,000                       | 1.00%             |
| \$1,000,001 to \$3,000,000                     | 0.75%             |
| Above \$3,000,000                              | Negotiable        |

Management Fees are based on the average daily value of assets managed during the calendar quarter. Quarterly Management Fees deducted from the clients' account by the custodian will be outlined in SSF's fee invoice as fees are withdrawn. The first payment is calculated based on the number of days assets are placed in the account during a calendar quarter. Generally, Management Fees are deducted from the client's account no later than the fifteenth (15th) day after the end of each quarter, in arrears. If an account is terminated prior to the end of a calendar quarter the terminating client will pay Management Fees up to

the termination date. Clients who cancel services within five business days of the contract date will not be charged the Management Fee.

#### SSF Financial Planning Services Fees

Depending upon the scope of the engagement and specific requests by the client, SSF will charge a flat fee ranging from \$795 to \$2,500 (the “Financial Planning Fee”). The Financial Planning Fee will be negotiated prior to contracting with the client, and the agreed upon Financial Planning Fee payable upon completion of the services provided. The client may terminate its financial planning arrangement at any time, in writing, and will only be charged a portion of the Financial Planning Fee based upon a pro-rated calculation related to the time and expense expended by SSF. SSF typically waives any financial planning fees for investment management and advisory clients. Clients who cancel services within five business days of the contract date will not be charged the Financial Planning Fee. The Financial Planning Fee is payable by check only.

#### SSF Retirement Plan Services Fees

For its Retirement Plan Services, SSF is paid a fee based on a percentage of assets in the plan the “Retirement Plan Fee”), in accordance with the following tiered fee schedule:

| <b>For the Portion of the Account that is:</b> | <b>Annual Fee</b> |
|--|-------------------|
| \$0 to \$250,000                               | 1.25%             |
| \$251,000 to \$500,000                         | 0.95%             |
| \$500,001 to \$1,000,000                       | 0.75%             |
| \$1,000,001 to \$3,000,000                     | 0.55%             |
| Above \$3,000,000                              | 0.50%             |

The annual Retirement Plan Fee is set each year based on the market value of the Plan assets on December 1st of the preceding year. Notification of the current year’s annual Retirement Plan Fee will be communicated to the trustee in writing by December 31st of the previous year. The Retirement Plan Fee is payable in arrears based on the average daily value of included assets. The Retirement Plan Fee is billed quarterly and deducted from the clients' account by the custodian and are outlined in SSF’s fee invoice. The first payment is calculated based on the number of days assets are placed in the account during a calendar quarter. Generally, the Retirement Plan Fee is deducted from the client’s accounts no later than the fifteenth (15th) day after the end of each quarter, in arrears. If an account is terminated prior to the end of a calendar quarter the terminating client will pay the Retirement Plan Fee up to the termination date. Clients who cancel services within five business days of the contract date will not be charged the Retirement Plan Fee.

## **B. Payment Method**

### Direct Debiting

Each quarter, SSF will notify the client's qualified custodian of the amount of the fee due and payable to SSF pursuant to the applicable SSF's fee schedule and advisory agreement. The qualified custodian will not validate or check SSF's fees, its corresponding calculation or the assets on which the fee is based unless the client has retained their services to do so. With the client's pre-approval, the qualified custodian will "deduct" the fee from the client's account or, if the client has more than one account, from the account(s) the client has designated to pay SSF's advisory fees.

Each month, the client will receive a statement directly from the qualified custodian showing all transactions, positions and credits/debits into or from the client's account. Statements sent after quarter end will also reflect the advisory fee paid by the client to SSF.

### Billing

Clients will be billed for the financial planning services fee upon conclusion of the service. All fees are due and payable upon receipt of the invoice or as negotiated and documented in the client's advisory agreement.

## **C. Additional Information**

### Fee Only

SSF is compensated solely by fees paid by its clients and does not accept commissions or compensation from any other source (i.e., mutual funds, insurance products or any other investment product).

### Legacy Clients

Certain legal clients of SSF may be provided with non-discretionary investment management services. As of January 1, 2021, SSF no longer offers investment management services on a non-discretionary basis.

### Fees Negotiable

SSF does not normally consider its fee to be negotiable for accounts of \$5 million or less, provided, however, that SSF reserves the right in its sole discretion and based on factors SSF deems relevant, to agree to a fee for any particular client that varies from the fee set forth in the tables above and which may be lower or higher than fees charged to another client with a similar sized account. In certain situations, minimum account fees may apply that may exceed the fees in the schedule above. Relevant factors that may lead to a variation in fees include, for example, the size and scope of the client's overall relationship with SSF and the fees that the client's account was charged at another firm prior to transferring to SSF.

### Mutual Fund Fees and Exchange Traded Funds

All fees paid to SSF for investment advisory services are separate and distinct from the expenses charged by mutual funds and exchange-traded funds ("ETFs") to their shareholders, if applicable. These fees and expenses are described in each fund's or ETF's prospectus. These fees and expenses will generally be used to pay management fees for the

funds, other fund expenses, account administration (e.g., custody, brokerage and account reporting), and a possible distribution fee. A client could invest in these products directly, without the services of SSF, but would not receive the services provided by SSF which are designed, among other things, to (i) assist the client in determining which products or services are most appropriate to each client's financial situation and objectives and (ii) determining when such buying or selling is appropriate. Accordingly, the client should review both the fees charged by the fund[s] and/or ETFs and the fees charged by SSF to fully understand the total amount of fees to be paid by the client.

#### Miscellaneous Expenses

SSF's fees with respect to each client account does not include certain other charges and expenses, including (a) brokerage charges, which are paid on a transactional basis, (b) dealer mark-ups or mark-downs on securities purchased or sold for an account through third-party dealers and (c) taxes. Please see Item 12 of this brochure for detailed information about SSF's brokerage practices.

#### Professional Fees

SSF's fees do not include the services of any professional engaged by a client which will be billed directly by such professional(s).

#### **D. Termination and Refunds**

A client has the right to terminate their investment advisory relationship with SSF without penalty within five (5) business days after entering into an agreement with SSF. In addition, a client has the right to cancel their advisory agreement at any time and for any reason upon written notice to SSF. If an account is terminated during a calendar quarter, fees will be adjusted *pro rata* based upon the number of calendar days in the calendar quarter that the investment management agreement was effective. Because fees are charged in arrears, the client will not be due a refund.

#### **E. Additional Compensation**

SSF and its associates are engaged for fee-only services and an effort is made to recommend "no-load" investments whenever possible. SSF does not accept commissions or compensation from any other source (e.g., mutual funds, insurance products or any other investment product) and does not charge a mark-up on clients' securities transactions. Neither SSF nor its associated persons receive "trailer" or 12b-1 fees from an investment company that the firm recommends. Fees charged by issuers are detailed in prospectuses or product descriptions and clients are encouraged to read these documents before investing. Clients always have the option to purchase recommended or similar investments through a service provider of their own choosing.

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

SSF does not accept performance-based fees or engage in side-by-side management. SSF's fees are calculated as described above in Item 5 - Fees and Compensation - and are not charged on the basis of a share of the capital gains upon, or capital appreciation of, the funds in a client's account.

## Item 7 - Types of Clients

### A. Clients

SSF provides investment advisory services to individuals, including high net worth individuals, pension and profit sharing plans, trusts, small businesses and estates.

### B. Engaging the Services of SSF

All clients wishing to engage SSF for advisory services must enter into the applicable advisory agreement with SSF as well as any other document or questionnaire provided by the firm. The advisory agreement describes the services and responsibilities of SSF to the client. It also outlines SSF's fees in detail. In addition, clients must complete certain broker-dealer/custodial documentation. Upon completion of these documents, SSF will be considered engaged by the client.

Clients are responsible for ensuring that SSF is informed in a timely manner of changes in investment objectives and risk tolerance.

### C. Conditions for Managing Accounts

SSF requires new clients have a minimum account size of \$25,000 for portfolio management services. SSF may, in its sole discretion, accept clients with smaller portfolios based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and pro bono activities. SSF will only accept clients with less than the minimum portfolio size if, in the sole opinion of the firm, the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance. SSF may aggregate the portfolios of family members to meet the minimum portfolio size.

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

### A. Methods of Analysis and Investment Strategies

#### Methods of Analysis

SSF relies on an investment philosophy that is based on the latest academic research such as Modern Portfolio Theory and the Fama-French Three-Factor Model, and the latest discoveries in behavioral finance. SSF believes that solid science, backed by decades of academic research, offers one of the smartest approaches to investing.

#### *Modern Portfolio Theory*

Modern Portfolio Theory says that it is not enough to look at the expected risk and return of one particular asset class. By investing in more than one asset class, an investor can reap the benefits of diversification, chief among them a reduction in the riskiness of the portfolio. Modern Portfolio Theory quantifies the benefits of diversification, also known as "not putting all of your eggs in one basket."

### *Fama-French Three-Factor Model*

The Fama-French Three-Factor Model is based on research showing that over long periods of time, value stocks outperform growth stocks, and similarly, small cap stocks tend to outperform large cap stocks. Therefore, with analysis of these factors, it becomes easier to evaluate the potential portfolio performance.

The SSF investment philosophy is based on the following basic principles:

- Develop highly diversified portfolios that feature a broad range of asset classes and market sectors;
- Use market-based investments, not manager-based investments;
- Hold the investments for long periods of time;
- Periodically reallocate investments as conditions warrant;
- Strategically rebalance as needed.

The SAM Wrap Program is highly diversified, invests primarily in mutual funds and ETFs, and features as many as nineteen (19) asset classes and market sectors. This approach is very effective, but cannot ensure investment success or prevent loss in a declining market. Past performance is no guarantee of future results.

### Investment Strategies

SSF will use all or some of the following strategies in managing client accounts, provided that such strategies are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance and time horizons, among other considerations:

#### *Long-Term Purchases*

Securities are purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.

### Types of Investments

Investment advice may be offered on any investments held by a client at the start of the advisory relationship. Recommendations for new investments will typically include domestic equity securities, exchange traded funds, corporate debt securities and mutual funds.

### Sources of Information

In conducting its security analysis, SSF may obtain and utilize information and data from a wide variety of public sources. Neither SSF nor its Advisers Representatives will independently verify or guarantee such information and data. In categorizing the asset classes of investments, SSF will rely on prospectuses and information obtained from the issuer, its agents or through publicly available sources. Neither SSF nor its Advisers Representatives shall be liable for any misstatement or omission contained in the

information from these sources, or any loss, liability, claim, damage or expense, incurred, arising out of, or attributable to such misstatement or omission.

### Investing Involves Risk

Investing in securities involves risk of loss that each client should be prepared to bear. The value of a client's investment may be affected by one or more of the following risks, any of which could cause a client's portfolio return, the price of the portfolio's shares or the portfolio's yield to fluctuate:

- *Market Risk.* The value of portfolio assets will fluctuate as the stock or bond market fluctuates. The value of investments may decline, sometimes rapidly and unpredictably, simply because of economic changes or other events that affect large portions of the market.
- *Interest Rate Risk.* Changes in interest rates will affect the value of a portfolio's investments in fixed-income securities. When interest rates rise, the value of investments in fixed-income securities tend to fall and this decrease in value may not be offset by higher income from new investments. Interest rate risk is generally greater for fixed-income securities with longer maturities or durations.
- *Credit Risk.* An issuer or guarantor of a fixed-income security, or the counterparty to a derivatives or other contract, may be unable or unwilling to make timely payments of interest or principal, or to otherwise honor its obligations. The issuer or guarantor may default causing a loss of the full principal amount of a security. The degree of risk for a particular security may be reflected in its credit rating. There is the possibility that the credit rating of a fixed-income security may be downgraded after purchase, which may adversely affect the value of the security. Investments in fixed-income securities with lower ratings tend to have a higher probability that an issuer will default or fail to meet its payment obligations.
- *Allocation Risk.* The allocation of investments among different asset classes may have a significant effect on portfolio value when one of these asset classes is performing more poorly than the others. As investments will be periodically reallocated, there will be transaction costs which may be, over time, significant. In addition, there is a risk that certain asset allocation decisions may not achieve the desired results and, as a result, a client's portfolio may incur significant losses.
- *Foreign (Non-U.S.) Risk.* A portfolio's investments in securities of non-U.S. issuers may involve more risk than those of U.S. issuers. These securities may fluctuate more widely in price and may be less liquid due to adverse market, economic, political, regulatory or other factors.
- *Emerging Markets Risk.* Securities of companies in emerging markets may be more volatile than those of companies in developed markets. By definition, markets, economies and government institutions are generally less developed in emerging market countries. Investment in securities of companies in emerging markets may entail special risks relating to the potential for social instability and the risks of expropriation, nationalization or confiscation. Investors may also face the imposition of restrictions on foreign investment or the repatriation of capital and a lack of hedging instruments.
- *Currency Risk.* Fluctuations in currency exchange rates may negatively affect the value of a portfolio's investments or reduce its returns.
- *Derivatives Risk.* Certain strategies involve the use of derivatives to create market exposure. Derivatives may be illiquid, difficult to price and leveraged so that small

changes may produce disproportionate losses for a client's portfolio and may be subject to counterparty risk to a greater degree than more traditional investments. Because of their complex nature, some derivatives may not perform as intended. As a result, a portfolio may not realize the anticipated benefits from a derivative it holds or it may realize losses. Derivative transactions may create investment leverage, which may increase a portfolio's volatility and may require the portfolio to liquidate portfolio securities when it may not be advantageous to do so.

- *Capitalization Risk.* Investments in small- and mid-capitalization companies may be more volatile than investments in large-capitalization companies. Investments in small-capitalization companies may have additional risks because these companies have limited product lines, markets or financial resources.
- *Liquidity Risk.* Liquidity risk exists when particular investments are difficult to purchase or sell, possibly preventing an investment manager from selling out of such illiquid securities at an advantageous price. Derivatives and securities involving substantial market and credit risk also tend to involve greater liquidity risk.
- *Issuer Specific Risk.* The value of an equity security or debt obligation may decline in response to developments affecting the specific issuer of the security or obligation, even if the overall industry or economy is unaffected. These developments may comprise a variety of factors, including, but not limited to, management issues or other corporate disruption, political factors adversely affecting governmental issuers, a decline in revenues or profitability, an increase in costs, or an adverse effect on the issuer's competitive position.
- *Concentrated Portfolios Risk.* Certain investment strategies focus on particular asset classes, countries, regions, industries, sectors or types of investments. Concentrated portfolios are an aggressive and highly volatile approach to trading and investing. Concentrated portfolios hold fewer different stocks than a diversified portfolio and are much more likely to experience sudden dramatic prices swings. In addition, the rise or drop in price of any given holding is likely to have a larger impact on portfolio performance than a more broadly diversified portfolio.
- *Legal or Legislative Risk.* Legislative changes or court rulings may impact the value of investments or the securities' claim on the issuer's assets and finances.

## **B. Risks Associated with Investment Strategies and Methods of Analysis**

### *Risks Associated with Investment Strategies*

#### Long-Term Purchases

Using a long-term purchase strategy generally assumes the financial markets will go up in the long-term which may not be the case. There is also the risk that the segment of the market that you are invested in or your particular investments will decrease in value even if the overall financial markets advance. Purchasing investments long-term may create an opportunity cost (e.g., "locking-up" assets that may be better utilized in the short-term in other investments).

#### *Risk Associated with Methods of Analysis*

The analysis of securities requires subjective assessments and decision-making by experienced investment professionals, however, there is always the risk of an error in judgment.

SSF's securities analysis methods rely on the assumption that the companies whose securities the firm purchases and sells, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While SSF is alert to indications that data may be incorrect, there is always the risk that SSF's analysis may be compromised by inaccurate or misleading information.

### *Modern Portfolio Theory*

The primary inherent risk in using the Modern Portfolio Theory is the fact that theory is built on the assumption that over time, historic relationships between investments remain relatively consistent. If a fundamental shift in relationships among the various asset classes/sectors should occur, historical data will no longer accurately represent what can be expected going forward. More volatility can occur if these relationships prove to be incorrect or (for a time) are inconsistent. If asset class relationships do shift, short-term greater than anticipated declines in the value of portfolios can be seen - which can at times be dramatic. As a result, the Modern Portfolio Theory investment philosophy is best suited for investors who desire a buy and hold strategy for a substantial portion of their funds with a long-term investment time horizon.

## **C. Risks Associated with Specific Securities Utilized**

### Common Stocks

The major risks associated with investing in common stocks relate to the issuer's capitalization, quality of the issuer's management, quality and cost of the issuer's services, the issuer's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk and the issuer's ability to create shareholder value (i.e., increase the value of the company's stock price).

### Fixed-Income Securities

Different forms of fixed-income instruments, such as bonds, money market funds, and certificates of deposit may be affected by various forms of risk, including:

- *Interest Rate Risk.* The risk that the value of the fixed-income holding will decrease because of an increase in interest rates.
- *Liquidity Risk.* The inability to readily buy or sell an investment for a price close to the true underlying value of the asset due to a lack of buyers or sellers. While certain types of fixed-income securities are generally liquid (e.g., corporate bonds), there are risks which may occur such as when an issue trading in any given period does not readily support buys and sells at an efficient price. Conversely, when trading volume is high, there is also the risk of not being able to purchase a particular issue at the desired price.
- *Credit Risk.* The potential risk that an issuer would be unable to pay scheduled interest or repay principal at maturity, sometimes referred to as "default risk." Credit risk may also occur when an issuer's ability to make payments of principal and interest when due is interrupted. This may result in a negative impact on all forms of debt instruments.
- *Reinvestment Risk.* With declining interest rates, investors may have to reinvest income or principal at a lower rate.

- *Duration Risk.* Duration is a measure of a bond's volatility, expressed in years to be repaid by its internal cash flow (interest payments). Bonds with longer durations carry more risk and have higher price volatility than bonds with shorter durations.

### Exchange Traded Funds (ETFs)

An ETF holds a portfolio of securities designed to track a particular market segment or index. Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV.

ETFs are subject to risks similar to those of stocks. Investment returns will fluctuate and are subject to market volatility, so that when shares are sold they may be worth more or less than their original cost. ETF shares are bought and sold at market price (not Net Asset Value) and are not individually redeemed from the fund. There is also the risk that a manager may deviate from the stated investment mandate or strategy of the ETF which could make the holdings less suitable for a client's portfolio. ETFs may also carry additional expenses based on their share of operating expenses and certain brokerage fees, which may result in the potential duplication of certain fees. In addition, while many ETFs are known for their potential tax efficiency and higher "qualified dividend income" (QDI) percentages, there are assets classes within these ETFs or holding periods that may not benefit. Shorter holding periods, as well as commodities and currencies that may be part of an ETF's portfolio, may be considered "non-qualified" under certain tax code provisions.

There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

### Mutual Funds - Equity Funds

The major risks associated with investing in equity mutual funds is similar to the risks associated with investing directly in equity securities, including market risk, which is the risk that investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Other risks include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification and the type and amount of sector diversification within specific industries.

In addition, there is the risk that a manager may deviate from the stated investment mandate or strategy of the mutual fund which could make the holdings less suitable for a client's portfolio. Also, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold their shares in the fund. Mutual funds may also carry additional expenses based on their share of operating expenses and certain brokerage fees, which may result in the potential duplication of certain fees.

### Mutual Funds - Fixed-Income Funds

In addition to the risks associated with investing in equity mutual funds, fixed-income mutual funds also have the same risks as set forth under “Fixed-Income Securities” listed above.

### Mutual Funds - Index Funds

Index Funds have the potential to be affected by “tracking error risk” which means a deviation from a stated benchmark index. Since the core of a portfolio may attempt to closely replicate a benchmark, the source of the tracking error (deviation) may come from a “sample index” that may not closely align the benchmark. In addition, while many index mutual funds are known for their potential tax efficiency and higher “qualified dividend income” (QDI) percentages, there are assets classes within these funds or holding periods that may not benefit. Shorter holding periods, as well as commodities and currencies that may be part of a fund’s portfolio, may be considered “non-qualified” under certain tax code provisions.

**Note that there may be other circumstances not described here that could adversely affect a client’s investment and prevent their portfolio from reaching its objective.**

## **Item 9 - Disciplinary History**

Neither SSF nor its management personnel have any reportable disciplinary history.

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

### **A. Broker-Dealer Registration and Registered Representatives**

SSF is not registered, nor does it have an application pending to register, as a broker-dealer. No management person is registered, nor does any management person have an application pending to register, as a registered representative of a broker-dealer.

### **B. Futures and Commodity Registration**

SSF is not registered, nor does it have an application pending to register, as a futures commission merchant, commodity pool operator or a commodity trading advisor. No management person is registered, nor does any management person have an application pending to register, as an associated person of a futures commission merchant, commodity pool operator or a commodity trading advisor.

### **C. Financial Industry Affiliations**

Adviser Representatives of SSF are also licensed to sell insurance products. From time to time they will offer clients advice or insurance products as part of his financial review. This practice represents a potential conflict of interest because it gives such Adviser Representatives an incentive to recommend products based on the commission amount received. This conflict is mitigated by the fact that clients are not required to purchase any products. Clients also have the option to purchase these products through another insurance agent of their choosing.

## **D. Selection of Other Advisers**

Certain legacy clients of SSF participate in a wrap fee asset allocation program sponsored by Financial Engines Advisors, LLC. This wrap fee program is no longer offered by SSF to either existing or new clients.

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

### **A. Code of Ethics**

SSF has adopted a Code of Ethics to prevent violations of the securities laws. The Code of Ethics is predicated on the principle that SSF owes a fiduciary duty to its clients. Accordingly, SSF expects all firm personnel to act with honesty, integrity and professionalism and to adhere to federal securities laws. All firm personnel are required to adhere to the Code of Ethics. At all times, SSF and its personnel must (i) place client interests ahead of the firm's; (ii) engage in personal investing that is in full compliance with the firm's Code of Ethics; and (iii) avoid taking advantage of their position.

Clients and prospective clients may request a copy of the firm's Code of Ethics by contacting SSF at (248) 946-4515.

### **B. Recommendations Involving Material Financial Interests**

SSF does not recommend to clients securities in which the firm or any related person has a material financial interest.

### **C. Investing in Same Securities as Clients**

From time to time, representatives of SSF may buy or sell securities for themselves that they also recommend to clients. This may provide an opportunity for representatives of SSF to buy or sell the same securities before or after recommending the same securities to clients resulting in representatives profiting off the recommendations they provide to clients. Such transactions may create a conflict of interest. However, the size of personal trades and the types of investments (ETFs or Open-End Mutual Funds) that are likely to be transacted in would not have a practical impact on prices in those securities. SSF will always document any transactions that could be construed as conflicts of interest and will always transact client business before their own when similar securities are being bought or sold.

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

From time to time, representatives of SSF may buy or sell securities for themselves at or around the same time as clients. This may provide an opportunity for representatives of SSF to buy or sell securities before or after recommending securities to clients resulting in representatives profiting off the recommendations they provide to clients. Such transactions may create a conflict of interest. However, the size of personal trades and the types of investments (ETFs or Open-End Mutual Funds) that are likely to be transacted in would not have a practical impact on prices in those securities. SSF will always document any transactions that could be construed as conflicts of interest and will always transact client's transactions before its own when similar securities are being bought or sold. No person associated with SSF shall prefer his or her own interest to that of any client.

## Item 12 - Brokerage Practices

### A. Brokerage Selection

Clients who establish an account with SSF must consent to a clearing/custodial relationship with Fidelity Institutional Wealth Services, (“Fidelity”), (as cleared through National Financial Services LLC) or TD Ameritrade Institutional, a division of TD Ameritrade Inc. (“TD Ameritrade”) to execute and clear transactions and provide custody services. Both firms are members of FINRA/SIPC.

#### Best Execution

Best execution has been defined as the “execution of securities transactions for clients in such a manner that the client’s total cost or proceeds in each transaction is the most favorable under the circumstances.” The best execution responsibility applies to the circumstances of each particular transaction and an investment adviser must consider the full range and quality of a broker-dealer’s services, including, among other things, execution capability, commission rates, the value of any research, financial responsibility and responsiveness.

In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer’s services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while SSF will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions.

#### Broker Analysis

SSF evaluates a wide range of criteria in seeking the most favorable price and market for the execution of transactions. These include the broker-dealer’s trading costs, efficiency of execution and error resolution, financial strength and stability, capability, positioning and distribution capabilities, information in regard to the availability of securities, trading patterns, statistical or factual information, opinion pertaining to trading and prior performance in serving SSF.

In selecting Fidelity and TD Ameritrade, SSF evaluated all of the services offered, the quality of those services and the cost indirectly borne by clients to determine if the clearing firm provides overall quality of services for the price. While SSF believes that both Fidelity and TD Ameritrade offer competitive commission rates, SSF does not otherwise seek to obtain the best combination of price and execution with respect to clients’ accounts. SSF will periodically compare clearing firm services and prices against other broker-dealers qualified to provide comparable services. While another broker-dealer may offer these services at a lower overall cost, SSF is not required to move all accounts to that broker-dealer.

#### Research/Soft Dollar Benefits

SSF has no formal soft dollar arrangements and does not use soft dollars to acquire any research services. However, as a user of Fidelity’s and TD Ameritrade’s institutional services, SSF receives other products and services that benefit SSF, but may not benefit its clients’ accounts. Some of these other products and services assist the firm in managing and administering clients’ accounts, including:

- Receipt of duplicate client confirmations and bundled duplicate statements;
- Access to a trading desk serving institutional participants exclusively;
- Access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts;
- Ability to have investment advisory fees deducted directly from client account;
- Receipt of compliance publications; and
- Access to mutual funds which generally require significantly higher minimum initial investments or are generally available only to institutional investors.

Fidelity and TD Ameritrade also make available to SSF other services intended to help SSF manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, Fidelity and TD Ameritrade may make available, arrange and/or pay for these types of services rendered to SSF by independent third parties.

Additional benefits received because of SSF's use of Fidelity's and TD Ameritrade's institutional services may depend upon the amount of transactions directed to, or amount of assets custodied by, Fidelity and/or TD Ameritrade. While as a fiduciary SSF endeavors to act in its clients' best interests, SSF's recommendation that clients maintain their assets in accounts at either Fidelity and/or TD Ameritrade may be based in part on the benefit to SSF of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage provided by Fidelity and/or TD Ameritrade which may create a conflict of interest.

### Directed Brokerage

#### *Company Directed Brokerage*

SSF does not have the discretionary authority to determine the broker-dealer to be used. As stated above, clients in need of brokerage will have either Fidelity or TD Ameritrade recommended to them. While there is no direct linkage between the investment advice given and usage of Fidelity and TD Ameritrade, economic benefits are received which would not be received if SSF did not give investment advice to clients (please see additional disclosures in the "Research/Soft Dollars Benefits" section directly above). SSF does not participate in any transaction fees or commissions paid to the broker dealer or custodian and does not receive any fees or commissions for the opening or maintenance of client accounts at recommended brokers.

Not all investment advisers require their clients to direct brokerage. SSF is required to disclose that by directing brokerage, SSF may not be able to achieve most favorable execution of client transactions and this practice may cost clients more money.

#### *Client Directed Brokerage*

SSF does not permit clients to direct brokerage.

## **B. Trade Aggregation and Allocation**

Whenever appropriate and when the price or execution of a security can be impacted favorably by aggregating orders among accounts, SSF aggregates transactions on behalf of

all client accounts, including accounts of Adviser Representatives and employees. It is SSF policy that such transactions will be allocated to all participating client accounts in a fair and equitable manner. There is no preferential treatment given to any account. Transactions may be traded together to ensure best execution and to avoid price differential. There is seldom, if ever, a problem finding sufficient mutual fund shares to purchase for clients' accounts. These shares are purchased from the issuer and sold at the net asset value next determined after an order is received. Shares of mutual funds are sold back to the issuer. Since SSF only buys open-end funds, each issuing mutual fund must stand ready to buy the shares back at the share's net asset value as determined after the redemption order is received. Similarly, SSF buys and sells highly liquid ETF interests or shares and there is seldom any difficulty finding a sufficient supply of ETFs on the market.

### **C. Trade Errors**

Trade errors are promptly reported to the custodian and will be rectified by the custodian with no adverse financial effect on the client.

## **Item 13 - Review Of Accounts**

### **A. Periodic Reviews**

Account reviews are performed quarterly by each Adviser Representative for their respective client accounts. Financial plans are considered complete when recommendations are delivered to the client. An ongoing review for financial planning clients is done only upon request of the client.

### **B. Other Reviews**

Other conditions that may trigger a review of clients' accounts are changes in the tax laws, new investment information and changes in a client's own situation. Reviews may also be triggered by material market, economic or political events, cash inflow or outflow to/from the portfolio or by changes in client's financial situations (such as retirement, termination of employment, physical move, or inheritance).

### **C. Regular Reports**

#### Investment Advisory Services

Each client will receive at least monthly from the custodian, a written report that details the client's account including assets held and asset values. Clients will receive, at least quarterly, performance reports directly from SSF. The report will include performance and asset allocation information.

Clients are urged to carefully review the account statement sent by SSF and to compare the account statement provided by the broker-dealer/custodian with any statements provided by SSF.

#### Financial Planning Services

Financial planning services clients will receive a completed financial plan. Additional reports will not typically be provided unless otherwise contracted for at the inception of the advisory relationship.

## **Item 14 - Client Referrals And Other Compensation**

### **A. Economic Benefits**

SSF does not receive any economic benefits such as sales awards or other prizes from any non-client for providing investment advisory services to the firm's clients.

### **B. Client Referrals**

Neither SSF nor any related person directly or indirectly compensates any person for client referrals.

## **Item 15 - Custody**

Custody of client assets will be maintained with the independent custodian selected by the client. SSF will not have physical custody of any assets in the client's account except as permitted for direct deduction of advisory fees. Clients will be solely responsible for paying all fees or charges of the custodian. Clients will authorize SSF to give the custodian instructions for the purchase, sale, conversion, redemption, exchange or retention of any security, cash or cash equivalent or other investment for the client's account.

Clients will receive directly from the custodian at least quarterly a statement showing all transactions occurring in the client's account during the period covered by the account statement, and the funds, securities and other property in the client's account at the end of the period. The account statement will also indicate the amount of advisory fees deducted from your account(s) for each billing period.

Clients are urged to carefully review statements received from the custodian to ensure the accurate reporting of such information.

## **Item 16 - Investment Discretion**

SSF requests that it be provided with written authority (*e.g.*, limited power of attorney contained in SSF's advisory agreement) to determine the types and amounts of securities that are bought or sold. SSF's authority in making investment related decisions may be limited by account guidelines, investment objectives and trading restrictions, as agreed between SSF and the client. Any limitations on SSF's discretionary authority shall be included in this written authority statement. Clients may change or amend these limitations as required. All such amendments are required to be submitted in writing.

## **Item 17 - Voting Client Securities**

### **Proxy Voting**

SSF does not vote proxies on behalf of its clients. Therefore, although SSF may provide discretionary investment advisory services relative to client investment assets, it is the client that maintains exclusive responsibility for: (i) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted and (ii) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceeding or other type events pertaining to the client's investment assets. SSF and/or the client shall

correspondingly instruct each custodian of the assets to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets.

### **Legal Proceedings**

Although SSF may have discretion over client accounts, SSF will not be responsible for handling client claims in class action lawsuits or similar settlements involving securities owned by the client. Clients will receive the paperwork for such claims directly from their account custodians. Each client should verify with their custodian or other account administrator whether such claims are being made on the client's behalf by the custodian or if the client is expected to file such claims directly.

## **Item 18 - Financial Information**

### **A. Prepayment of Fees**

Because SSF does not require or accept prepayment of more than \$1,200 in fees six months or more in advance, SSF is not required to include a balance sheet with this disclosure brochure.

### **B. Financial Condition**

SSF does not have any adverse financial conditions to disclose.

### **C. Bankruptcy**

SSF has never been the subject of a bankruptcy petition.

## **Item 19 – Additional Information**

### **A. Privacy Notice**

SSF views protecting its clients' private information as a top priority and has instituted policies and procedures to ensure that client information is private and secure. SSF does not disclose any nonpublic personal information about its clients or former clients to any nonaffiliated third parties, except as permitted or required by law. In the course of servicing a client's account, SSF may share some information with its service providers, such as transfer agents, custodians, broker-dealers, accountants, and lawyers, etc. SSF restricts internal access to nonpublic personal information about the client to those persons who need access to that information in order to provide services to the client and to perform administrative functions for SSF. As emphasized above, it has always been and will always be SSF's policy never to sell information about current or former clients or their accounts to anyone. It is also SSF's policy not to share information unless required to process a transaction, at the request of a client, or as required by law. For the full text of the SSF's Privacy Policy please contact SSF at (248) 946-4515.

### **B. Requests for Additional Information**

Clients may contact SSF at (248) 946-4515 to request additional information or to submit a complaint. Written complaints should be sent to Scott Smith Financial, Inc., 43155 Main Street, Suite 212, Novi, MI 48375.