

# THE PLANNING CENTER, INC.

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

**Dated: January 23, 2024**

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This brochure provides information about the qualifications and business practices of The Planning Center, Inc. If you have any questions about the contents of this brochure, please contact us at (309) 797-4030 or [clientservices@theplanningcenter.com](mailto:clientservices@theplanningcenter.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.

Additional information about The Planning Center, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

References herein to The Planning Center, Inc. as a "registered investment adviser" or any reference to being "registered" does not imply a certain level of skill or training.

## **Item 2           Material Changes**

There have been no material changes made to Registrant's disclosure statement since last year's Annual Amendment filing made on February 21, 2023.

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#### **Item 4            Advisory Business**

- A. The Planning Center, Inc. (the “Registrant”) is a corporation formed under the laws of the state Illinois in May 2006. The Registrant has been registered with the Securities and Exchange Commission as an investment adviser since April 2002. The Registrant is owned by Matthew Sivertsen, CFP®, Eric Kies, CFP®, JJ Sessions, CFP®, Andrew Sivertsen, CFP®, Michelle Maton, CFP®, H. Jude Boudreaux, CFP®, Michael Branham, CFP®, Matt Knoll CFP®, Robert Baner, CPA, Amy Tessmer, CPA, and Matthew Mercer.

B.

##### **INVESTMENT ADVISORY SERVICES**

The Registrant provides investment advisory services on a *fee-only* basis through its Capstone Wealth Program™, which is described in detail below.<sup>1</sup> In addition, the Registrant will occasionally agree to provide stand-alone financial planning services to a client or prospective client.

##### **The Capstone Wealth Program™**

The Capstone Wealth Program™ is designed to provide clients with personalized investment advice and offers personalized financial planning. As part of the Capstone Wealth Program™, the Registrant meets with clients to discuss the details of their financial situation, assists the client in ascertaining their financial goals, and presents recommendations to help clients reach their financial goals. From time to time, clients can visit with representatives of the Registrant to request assistance in implementing their financial plan. In addition, clients can meet with representatives of the Registrant to provide updated information about their goals and review their current path in meeting their goals. Clients can request that the Registrant review their plan and modify the plan as needed.

As part of implementing a financial plan, the Registrant’s representatives generally meet with a client between three to five times to find out the client’s entire financial situation. After the initial delivery of a financial plan, the Registrant generally meets with the client between two and four times per year so that the client can review their financial plan with the Registrant, provide updates to their financial situation, and request any updates to their financial plan.

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<sup>1</sup> Certain clients of the Registrant became clients as a result of mergers, acquisitions, or business combinations in the past, and may become clients in the future. While the Capstone Wealth Program™ is how the Registrant primarily delivers its investment advisory services to individual and high net worth individual clients, not all clients have entered into Capstone Wealth Program™ agreements. These clients will typically receive the same or similar services, but may be subject to slightly different arrangements and continue to be bound by their prior investment advisory agreements if those agreements were assigned to the Registrant. The Registrant may provide some of these clients with free or discounted tax planning and preparation services. They may pay fees that are higher or lower or based on different metrics than those applicable to the Capstone Wealth Program™. The Registrant’s goal has been to integrate these other businesses and practices with a goal of being fully harmonized over time. As harmonization continues, and additional changes occur, the Registrant will communicate them as appropriate to clients and/or prospective clients. If a current client has not entered into a Capstone Wealth Program™ agreement, then they are free to request information about how their services or fees differ at any time.

The Registrant will not directly implement any non-investment-related aspect of a client's financial plan, unless it agrees to do so in writing. From time to time, the Registrant may recommend other professionals to assist a client with implementing their financial plan. Clients and prospective clients should review the section below on Limitations of Financial Planning and Non-Investment Consulting/Implementation Services.

After the Registrant and a client have agreed on the client's investment objectives, the Registrant will invest a client's assets consistent with their investment objectives. The Registrant generally uses mutual funds and exchange traded funds ("ETFs") in creating client portfolios. In addition, the Registrant may use model portfolios if the portfolio meets the investment objectives of the client. However, the Registrant may also accommodate clients and purchase other securities on a client's behalf upon request. Such purchases have historically been fixed-income securities, individual equity securities, and insurance based products. Once invested, the Registrant provides periodic monitoring and review of the account and will make changes to the portfolio using its discretion (or after consultation with the client if they have entered into a non-discretionary agreement with the Registrant).

The Registrant also may agree to provide certain clients in the Capstone Wealth Program<sup>TM</sup> with tax planning and preparation of their individual federal tax return and up to two state tax returns. This offer is not available to all clients and the Registrant reserves the right to offer this service to clients in its sole discretion. The Registrant also reserves the right to take into consideration the amount of fees a client pays in determining whether to provide clients with tax planning and preparation for no additional cost.

#### **FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)**

To the extent requested by a client or in the event the Registrant deems that a client's financial planning request is extraordinary, the Registrant may also provide financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, divorce planning, etc.) on a stand-alone separate fee basis or as part of an hourly rate relationship stemming from another offering provided by the Registrant.

Before engaging the Registrant to provide stand-alone planning or consulting services, clients may be required to enter into a Financial Planning Agreement with Registrant setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the portion of the fee that is due from the client before Registrant commences services. If requested by the client, Registrant may recommend the services of other professionals for implementation purposes in their separate individual licensed capacities. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from the Registrant.

If the client engages any such recommended professional, and a dispute arises thereafter regarding such an engagement, the client agrees to seek recourse exclusively from and against the engaged professional. At all times, the engaged licensed professional[s] (i.e.,

attorney, accountant, insurance agent, etc.), and not the Registrant, shall be responsible for the quality and competency of the services provided.

It remains the client's responsibility to promptly notify the Registrant if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating or revising Registrant's previous recommendations and/or services.

#### **RETIREMENT PLAN SERVICES**

The Registrant also provides retirement plan consulting/management services, pursuant to which it assists sponsors of self-directed retirement plans organized under the Employee Retirement Security Act of 1974 ("ERISA"). The terms and conditions of the engagement shall be set forth in a Retirement Plan Services Agreement between the Registrant and the plan sponsor.

If the plan sponsor engages the Registrant in an ERISA Section 3(21) capacity, the Registrant will assist with the selection and/or monitoring of investment options (generally open-end mutual funds and exchange traded funds) from which plan participants shall choose in self-directing the investments for their individual plan retirement accounts. If the plan sponsor chooses to engage the Registrant in an ERISA Section 3(38) capacity, Registrant may provide the same services as described above, but may also: create specific asset allocation models that Registrant manages on a discretionary basis, which plan participants may choose in managing their individual retirement account; and/or modify the investment options made available to plan participants on a discretionary basis.

#### **MISCELLANEOUS**

**Limitations of Financial Planning and Non-Investment Consulting/Implementation Services.** To the extent requested by a client, Registrant may provide financial planning and related consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, divorce planning etc. The Registrant does not serve as a law firm, accounting firm, or insurance agency, and no portion of Registrant's services should be construed as legal or insurance implementation services. Accordingly, Registrant does not prepare estate planning documents or sell insurance products. To the extent requested by a client, Registrant may recommend the services of other professionals for certain non-investment implementation purposes (i.e., attorneys, accountants, insurance agents, etc.). Clients are reminded that they are under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation made by Registrant or its representatives.

If the client engages any unaffiliated recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. At all times, the engaged licensed professional[s] (i.e., attorney, accountant, insurance agent, etc.), and not the Registrant, shall be responsible for the quality and competency of the services provided.

**Separately Managed Account Programs.** The Registrant may recommend that the client allocate a portion of its investment assets among unaffiliated Separately Managed Account programs, including Charles Schwab and Co., Inc.'s Managed Account Services in accordance with the client's designated investment objective(s). In such situations, the

Separately Managed Account Manager shall have day-to-day responsibility for the active discretionary management of the allocated assets. The Registrant shall continue to render investment advisory services to the client relative to the ongoing monitoring and review of account performance, asset allocation and client investment objectives. Factors which the Registrant shall consider in recommending Separately Managed Account program include the client's designated investment objective(s) as applied to the Separately Managed Account program: management style, performance, reputation, financial strength, reporting, pricing, and research. The fees charged by the designated Separately Managed Account manager are exclusive of, and in addition to, Registrant's ongoing investment advisory fee, subject to the terms and conditions of a separate agreement between the client and the Separately Managed Account manager. Registrant's advisory fee is set forth in the fee schedule at Item 5 below.

**Cash Positions.** Registrant continues to treat cash as an asset class. As such, unless determined to the contrary by Registrant, all cash positions (money markets, etc.) shall continue to be included as part of assets under management for purposes of calculating Registrant's advisory fee. At any specific point in time, depending upon perceived or anticipated market conditions/events (there being no guarantee that such anticipated market conditions/events will occur), Registrant may maintain cash positions for defensive purposes. In addition, while assets are maintained in cash, such amounts could miss market advances. Depending upon current yields, at any point in time, Registrant's advisory fee could exceed the interest paid by the client's money market fund.

**Socially Responsible (ESG) Investing Limitations.** Socially Responsible Investing involves the incorporation of Environmental, Social and Governance ("ESG") considerations into the investment due diligence process. ESG investing incorporates a set of criteria/factors used in evaluating potential investments: Environmental (i.e., considers how a company safeguards the environment); Social (i.e., the manner in which a company manages relationships with its employees, customers, and the communities in which it operates); and Governance (i.e., company management considerations). The number of companies that meet an acceptable ESG mandate can be limited when compared to those that do not, and could underperform broad market indices. Investors must accept these limitations, including potential for underperformance. Correspondingly, the number of ESG mutual funds and exchange-traded funds are limited when compared to those that do not maintain such a mandate. As with any type of investment (including any investment and/or investment strategies recommended and/or undertaken by Registrant), there can be no assurance that investment in ESG securities or funds will be profitable, or prove successful. Registrant does not maintain or advocate an ESG investment strategy, but will seek to employ ESG if directed by a client to do so. If implemented, Registrant shall rely upon the assessments undertaken by the unaffiliated mutual fund, exchange traded fund or separate account portfolio manager to determine that the fund's or portfolio's underlying company securities meet a socially responsible mandate.

**Use of Mutual Funds:** While the Registrant may recommend allocating investment assets to mutual funds that are not available directly to the public, the Registrant may also recommend that clients allocate investment assets to publicly-available mutual funds that the client could obtain without engaging Registrant as an investment adviser. However, if a client or prospective client determines to allocate investment assets to publicly-available mutual funds without engaging Registrant as an investment adviser, the client or prospective client would not receive the benefit of Registrant's initial and ongoing

investment advisory services.

Other mutual funds, such as those issued by Dimensional Fund Advisors (“DFA”), are generally only available through selected registered investment advisers. Registrant may allocate client investment assets to DFA mutual funds. Therefore, upon the termination of Registrant’s services to a client, restrictions regarding transferability and/or additional purchases of, or reallocation among DFA funds will apply. Registrant’s Chief Compliance Officer, Eric Kies, CFP®, remains available to address any questions that a client or prospective client may have regarding the above.

**Non-Discretionary Service Limitations.** Clients that determine to engage the Registrant on a non-discretionary investment advisory basis must be willing to accept that the Registrant cannot effect any account transactions without obtaining prior verbal or electronic consent to any such transaction(s) from the client. Thus, in the event of a market correction during which the client is unavailable, the Registrant will be unable to effect any account transactions (as it would for its discretionary clients) without first obtaining the client’s verbal or electronic consent.

**Portfolio Activity.** As part of its investment advisory services, Registrant will review client portfolios on a periodic basis to determine if any changes are necessary based upon various factors, including, but not limited to, investment performance, account additions/withdrawals, and/or a change in the client’s investment objective. Based upon these factors, there may be extended periods of time when Registrant determines that changes to a client’s portfolio are unnecessary. Clients will remain responsible for paying advisory fees even during extended periods where trading may not occur in their account.

**Trade Error Policy.** From time-to-time Registrant may make an error in submitting a trade order on the client’s behalf. When this occurs, Registrant may place a correcting trade with the client’s broker-dealer. If an investment gain results from the correcting trade, the gain will remain in the client’s account unless the same error involved other client account(s) that should also have received the gain, it is not permissible for the client to retain the gain, or Registrant confers with the client and the client decides to forego the gain (e.g., due to tax reasons). If the gain does not remain in the client’s account and Charles Schwab & Co. Inc., member SIPC/NYSE (“Schwab”) is the custodian, Schwab will donate the amount of any gain \$100 and over to charity. If a loss occurs greater than \$100, Registrant will pay for the loss. Schwab will maintain the loss or gain (if such gain is not retained in the client’s account) if it is under \$100 to minimize and offset its administrative time and expense. Generally, if related trade errors result in both gains and losses in the client’s account, they may be netted.

**Retirement Rollovers-Potential for Conflict of Interest:** A client or prospective client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): (i) leave the money in the former employer’s plan, if permitted, (ii) roll over the assets to the new employer’s plan, if one is available and rollovers are permitted, (iii) roll over to an Individual Retirement Account (“IRA”), or (iv) cash out the account value (which could, depending upon the client’s age, result in adverse tax consequences). If Registrant recommends that a client roll over their retirement plan assets into an account to be managed by Registrant, such a recommendation creates a conflict of interest if Registrant will earn new (or increase its current) compensation as a result of the rollover. If Registrant provides a recommendation as to whether a client should engage in a rollover or not (whether it is

from an employer's plan or an existing IRA), Registrant is acting as a fiduciary within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. No client is under any obligation to roll over retirement plan assets to an account managed by Registrant, whether it is from an employer's plan or an existing IRA.

**Client Obligations.** In performing its services, Registrant shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains their responsibility to promptly notify the Registrant if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating or revising Registrant's previous recommendations and/or services.

**Cybersecurity Risk.** The information technology systems and networks that Registrant and its third-party service providers use to provide services to Registrant's clients employ various controls, which are designed to prevent cybersecurity incidents stemming from intentional or unintentional actions that could cause significant interruptions in Registrant's operations and result in the unauthorized acquisition or use of clients' confidential or non-public personal information. Clients and Registrant are nonetheless subject to the risk of cybersecurity incidents that could ultimately cause them to incur losses, including for example: financial losses, cost and reputational damage to respond to regulatory obligations, other costs associated with corrective measures, and loss from damage or interruption to systems. Although Registrant has established processes to reduce the risk of cybersecurity incidents, there is no guarantee that these efforts will always be successful, especially considering that Registrant does not directly control the cybersecurity measures and policies employed by third-party service providers. Clients could incur similar adverse consequences resulting from cybersecurity incidents that more directly affect issuers of securities in which those clients invest, broker-dealers, qualified custodians, governmental and other regulatory authorities, exchange and other financial market operators, or other financial institutions.

- C. The Registrant shall provide investment advisory services specific to the needs of each client. Before providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, the Registrant shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at any time, impose reasonable restrictions, in writing, on the Registrant's services.
- D. The Registrant does not participate in a wrap fee program.
- E. As of December 31, 2023, the Registrant had \$1,060,180,969 in assets under management on a discretionary basis and \$27,739,075 in assets under management on a non-discretionary basis.



## Item 5 Fees and Compensation

A.

### INVESTMENT ADVISORY SERVICES

As described in Item 4, the Registrant provides investment advisory services on a fee-only basis through its Capstone Wealth Program™. The fees for participating in the Capstone Wealth Program™ are described below. As described in more detail in footnote 1 in Item 4, certain legacy clients have agreed to fees available at the time of our engagement that are no longer offered. These fee schedules differ from those described below.

### CAPSTONE WEALTH PROGRAM™ FEE SCHEDULE

Clients engaging the Registrant for the Capstone Wealth Program™ are subject to an annual fee based on a percentage of the client's net worth in addition to a percentage of the client's adjusted gross income based on the following tiered schedule:

<u>Net Worth Between:</u>	<u>Fee %</u>
\$0 to \$2,500,000	0.50%
\$2,500,000.01 - \$10,000,000	0.25%
\$10,000,000.01 and over	0.10%
and	
<u>Income Between:</u>	<u>Fee%</u>
\$0 - \$500,000	1.25%
\$500,000 - \$1,500,000	0.75%
\$1,500,000 and Over	0.50%

The annual fee is determined at the time a client enters into a written agreement with the Registrant and remains in effect until the parties agree to revisit it. Therefore, the fee will not change if the client's net worth or income fluctuates throughout the year or in future years.

Fees in the program are generally divided by four and payable quarterly in advance. Certain clients have agreed to monthly payments. The fee is also rounded to the nearest \$250. Clients in the Capstone Wealth Program™ are subject to a minimum annual fee of \$7,500. Fees are determined based on information that is provided by the client or prospective client during initial meetings and conversations. We generally do not include the value of closely held businesses or real estate held for investment. If information is discovered during the relationship that would cause the fee to have been materially inaccurate, the Registrant reserves the right to revisit the fee.

From time to time, we may agree to an engagement with an annual fee below \$7,500, but approval is required by the Registrant's President and Chief Compliance Officer.

As described in Item 4 above, we may agree to provide certain clients in the Capstone Wealth Program™ with tax planning and preparation of their individual federal tax return and up to two state tax returns. This offer is not available to all clients and the Registrant reserves the right to offer this service to clients in its sole discretion. Clients who do not receive these services for no additional cost would be subject to the rates outlined below under Tax Planning and Preparation Services.

## **TAX PLANNING AND PREPARATION SERVICES**

Tax planning fees are calculated on an hourly basis. The tax planning fee will be rounded to the nearest ten dollars (\$10). The Registrant's tax preparation services for individual federal and up to two state tax returns is typically \$1,200 or less.

## **FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)**

Registrant may provide financial planning and/or consulting services (including investment and non-investment related matters, estate planning, tax planning, insurance planning, divorce planning, etc.) for an additional fee. Registrant's financial planning and consulting fees are non-negotiable, but generally range between \$1,500 and \$12,000 for a comprehensive financial plan; the Registrant charges \$500 per hour for licensed professionals and \$75 per hour for unlicensed professionals on an hourly basis, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s). Fees for financial planning services are due and payable upon receipt on a quarterly basis.

Pro-bono Financial Planning. The Registrant, in its sole discretion, may offer its Financial Planning and/or Consulting Services on zero-fee, pro-bono basis. Clients offered Financial Planning and/or Consulting Services on a pro-bono basis are required to enter into a Financial Planning Agreement with Registrant setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided.

## **RETIREMENT PLAN SERVICES**

The terms and conditions of the Registrant's retirement plan consulting services shall generally be set forth in a Retirement Plan Consulting Agreement between the Registrant and the plan sponsor. Registrant's retirement plan consulting fees are negotiable depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s).

- B. Clients may elect to have the Registrant's fees deducted from their custodial account. Both Registrant's advisory agreement and the custodial/clearing agreement may authorize the custodian to debit the account for the amount of the Registrant's investment advisory fee and to directly remit that management fee to the Registrant in compliance with regulatory procedures.

In the limited event that the Registrant bills the client directly, payment is due upon receipt of the Registrant's invoice. Clients who have engaged the Registrant under the Capstone Wealth Program™ will have their fees deducted or will be billed quarterly in advance. In certain instances, clients may have agreed to monthly deductions or billings.

- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, Registrant shall generally recommend that Schwab ("*Schwab*") or Axos Advisor Services, formerly ETrade Advisor Services ("*Axos*"), serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as *Schwab* and *Axos* charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e., transaction fees are charged for certain no-load mutual funds, markups and markdowns are charged for fixed income securities transactions).

The types of securities for which transaction fees, commissions, and/or other type fees (as well as the amount of those fees) shall differ depending upon the broker-dealer/custodian.

While certain custodians, including *Schwab* and *Axos*, generally (with the potential exception for large orders) do not currently charge fees on individual equity transactions (including ETFs), others do. There can be no assurance that *Schwab* or *Axos* will not change their transaction fee pricing in the future. Furthermore, *Schwab* may also assess fees to clients who elect to receive trade confirmations and account statements by regular mail rather than electronically.

In addition to Registrant's investment advisory fee, and applicable brokerage transaction fees, clients will also incur the expenses incurred by their investments held in their accounts. Mutual funds and exchange traded funds have internal costs, including management fees and other expenses, which are ultimately borne by their investors.

Asset Based Pricing Limitations. Registrant may recommend a client who custodies their assets with *Axos* to enter into an asset based pricing agreement with their account custodian. Registrant has negotiated rates directly with *Axos* and continues to revisit those arrangements from time to time.

Under an asset based pricing arrangement, the amount that a client will pay the custodian for transaction is based upon a percentage (%) of the market value of a client's account, generally expressed in basis points. One basis point is equal to one one-hundredth of one percent (1/100th of 1%, or 0.01% (0.0001) (generally, the greater the market value, the lower the %)). This differs from transaction-based pricing, which assesses a separate commission/transaction fee against your account for each account transaction.

Account investment decisions are driven by security selection and anticipated market conditions and not the amount of transaction fees payable by you to the account custodian. Registrant does not receive any portion of the asset based transaction fees payable by you to the account custodian. Registrant continues to believe that clients can benefit from an asset based pricing arrangement. You can request at any time to switch from asset based pricing to transactions based pricing, however, there can be no assurance that the volume of transactions will be consistent from year-to-year given changes in market events and security selection. Therefore, given the variances in trading volume, any decision by you to switch to transaction based pricing could prove to be economically disadvantageous. Registrant's Chief Compliance Officer, Eric Kies, CFP®, remains available to address any questions about asset based pricing.

For clients who have agreed to an asset-based administration fee with *Axos*, clients will incur a fee on the value of their account at the annual rate of 0.10%. The fee is payable monthly. Accounts are subject to a \$5 minimum fee on a monthly basis and a maximum annual fee of \$500.

Cash Sweep Accounts. Certain account custodians can require that cash proceeds from account transactions or new deposits, be swept to and/or initially maintained in a specific custodian designated sweep account. The yield on the sweep account will generally be lower than those available for other money market accounts. When this occurs, to help mitigate the corresponding yield dispersion, Registrant shall (usually within 30 days thereafter) generally (with exceptions) purchase a higher yielding money market fund (or other type security) available on the custodian's platform, unless

Registrant reasonably anticipates that it will utilize the cash proceeds during the subsequent 30-day period to purchase additional investments for the client's account. Exceptions and/or modifications can and will occur with respect to all or a portion of the cash balances for various reasons, including, but not limited to the amount of dispersion between the sweep account and a money market fund, the size of the cash balance, an indication from the client of an imminent need for such cash, or the client has a demonstrated history of writing checks from the account.

The above does not apply to the cash component maintained within a Registrant actively managed investment strategy (the cash balances for which shall generally remain in the custodian designated cash sweep account), an indication from the client of a need for access to such cash, assets allocated to an unaffiliated investment manager, and cash balances maintained for fee billing purposes.

The client shall remain exclusively responsible for yield dispersion/cash balance decisions and corresponding transactions for cash balances maintained in any Registrant unmanaged accounts.

- D. The Registrant's Capstone Wealth Program™ fee is prorated and paid quarterly in advance. The Capstone Wealth Program™ is subject to a minimum fee described above. Certain legacy clients may be subject to minimum fees that were previously described to them orally, in written agreements, or in disclosure brochures.

The investment advisory agreement between the Registrant and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the agreement. Upon termination, the Registrant will remit the prorated portion of any advanced advisory fee based upon the number of days that services were provided during the billing quarter, as applicable.

- E. Neither the Registrant, nor its representatives accept compensation from the sale of securities or other investment products.

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

Neither the Registrant nor any supervised person of the Registrant accepts performance-based fees.

## **Item 7            Types of Clients**

The Registrant's clients shall generally include individuals, high net worth individuals, pension and profit sharing plans, trusts, estates, charitable organizations and small businesses. The Registrant generally does not require a minimum annual investment advisory fee, except as disclosed above in relation to the Capstone Wealth Program™ and available tax planning and preparation services.

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

A. The Registrant may utilize the following methods of security analysis:

- Fundamental - (analysis performed on current market valuations compared to historical market valuations)

The Registrant may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Trading (securities sold within thirty (30) days)
- Modern Portfolio Theory - The process incorporates client needs, resources, time horizon, risk tolerance and past experience with the design of an asset allocation that is dynamic in nature rather than static.

**Investment Risk.** Investing in securities involves risk of loss that clients should be prepared to bear. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by the Registrant) will be profitable or equal any specific performance level(s). Without limitation, investors generally face the following risks:

- Interest-rate Risk: Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- Market Risk: The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk may be caused by external factors independent of the fund's specific investments as well as due to the fund's specific investments. Additionally, each security's price will fluctuate based on market movement and emotion, which may, or may not be due to the security's operations or changes in its true value. For example, political, economic and social conditions may trigger market events which are temporarily negative, or temporarily positive.
- Inflation Risk: When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- Reinvestment Risk: This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e., interest rate). This primarily relates to fixed income securities.
- Liquidity Risk: Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- Financial Risk: Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the

inability to meet loan obligations may result in bankruptcy and/or a declining market value.

- B. The Registrant's methods of analysis and investment strategies do not present any significant or unusual risks. However, every method of analysis has its own inherent risks.

The Registrant's primary investment strategies--Long Term Purchases, Short Term Purchases, Trading, and implementation of Modern Portfolio Theory—are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy. Trading, an investment strategy that requires the purchase and sale of securities within a thirty (30) day investment time period, involves a very short investment time period but will incur higher transaction costs when compared to a short term investment strategy and substantially higher transaction costs than a longer term investment strategy.

**Borrowing Against Assets/Risks.** A client who has a need to borrow money could determine to do so by using:

- **Margin**-The account custodian or broker-dealer lends money to the client. The custodian charges the client interest for the right to borrow money, and uses the assets in the client's brokerage account as collateral; and,
- **Pledged Assets Loan**- In consideration for a lender (i.e., a bank, etc.) to make a loan to the client, the client pledges its investment assets held at the account custodian as collateral;

These above-described collateralized loans are generally utilized because they typically provide more favorable interest rates than standard commercial loans. These types of collateralized loans can assist with a pending home purchase, permit the retirement of more expensive debt, or enable borrowing in lieu of liquidating existing account positions and incurring capital gains taxes. However, such loans are not without potential material risk to the client's investment assets. The lender (i.e., custodian, bank, etc.) will have recourse against the client's investment assets in the event of loan default or if the assets fall below a certain level. For this reason, Registrant does not recommend such borrowing unless it is for specific short-term purposes (i.e., a bridge loan to purchase a new residence). Registrant does not recommend such borrowing for investment purposes (i.e., to invest borrowed funds in the market). Regardless, if the client was to determine to utilize margin or a pledged assets loan, the following economic benefits would inure to Registrant:

- by taking the loan rather than liquidating assets in the client's account, Registrant continues to earn a fee on such Account assets; and,
- if the client invests any portion of the loan proceeds in an account to be managed by Registrant, Registrant will receive an advisory fee on the invested amount; and,

- if Registrant's advisory fee is based upon the higher margined account value, Registrant will earn a correspondingly higher advisory fee. This could provide Registrant with a disincentive to encourage the client to discontinue the use of margin.

The Client must accept the above risks and potential corresponding consequences associated with the use of margin or a pledged assets loans.

- C. Registrant recommends asset allocations based on a particular client's: economic situation, liquidity needs, risk tolerance, proposed investment period, need for diversification, reliance upon current income, present and anticipated tax situation. Registrant also considers historical yields, potential appreciation and marketability before making investment recommendations. The Registrant primarily recommends that its clients allocate investment assets among various mutual funds, exchange traded funds, bonds, fixed income securities, sub-advisory and separately managed account programs in accordance with the client's designated investment objective(s).

## **Item 9           Disciplinary Information**

Neither the Registrant nor any of its management persons have been the subject of any disciplinary actions requiring reporting under this Item.

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

- A. Neither the Registrant, nor its representatives, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither the Registrant, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.
- C. **First Step Cash Management, LLC** – Certain of the Registrant's owners also own First Step Cash Management, LLC (the "Firm"). The Firm was created to license proprietary financial planning and cash management software created by the Registrant's following owners: Matthew Sivertsen, CFP® and Eric Kies, CFP®. Clients of the Registrant should not be impacted by this business endeavor. The Registrant will only allow software to be licensed to other financial planners and investment advisers and will not separately license software to clients of the Registrant.
- D. The Registrant does not recommend or select other investment advisors for its clients.

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

- A. The Registrant maintains an investment policy relative to personal securities transactions. This investment policy is part of Registrant's overall Code of Ethics, which serves to establish a standard of business conduct for all of Registrant's Representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of

which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, the Registrant also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by the Registrant or any person associated with the Registrant.

- B. Neither the Registrant nor any related person of Registrant recommends, buys, or sells for client accounts, securities in which the Registrant or any related person of Registrant has a material financial interest.
- C. The Registrant and/or representatives of the Registrant *may* buy or sell securities that are also recommended to clients and may do so at or around the same time those securities are recommended to clients. Where the security involved is not a mutual fund that trades at the net asset value at the close of the market, this creates a conflict of interest because the Registrant or representatives of the Registrant are in a position to materially benefit from the sale or purchase of those securities. Practices such as “scalping” (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if the Registrant did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, “front-running” (i.e., personal trades executed before those of the Registrant’s clients) and other potentially abusive practices.

The Registrant has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of the Registrant’s “Access Persons.” The Registrant’s securities transaction policy requires that Access Person of the Registrant must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Furthermore, Access Persons must provide the Chief Compliance Officer with a quarterly transaction report, detail all trades in the Access Person’s account during the previous quarter; and on an annual basis, each Access Person must provide the Chief Compliance Officer with a written report of the Access Person’s current securities holdings.

## **Item 12      Brokerage Practices**

- A. In the event that the client requests that the Registrant recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct the Registrant to use a specific broker-dealer/custodian), Registrant generally recommends that investment management accounts be maintained at *Schwab* and/or *Axos*. Prior to engaging Registrant to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with Registrant setting forth the terms and conditions under which Registrant shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that the Registrant considers in recommending *Axos* or *Schwab* (or another broker-dealer/custodian, investment platform and/or mutual fund sponsor) include historical relationship with the Registrant, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction



fees paid by Registrant's clients shall comply with the Registrant's duty to seek best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where the Registrant determines, in good faith, that the commission/transaction fee is reasonable. 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 the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Registrant will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Registrant's investment management fee. The Registrant's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

1. Research and Additional Benefits

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, Registrant receives from *Axos* or *Schwab* (or another broker-dealer/custodian) without cost (and/or at a discount) support services and/or products, certain of which assist the Registrant to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by the Registrant may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or free consulting services, discounted and/or free attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by Registrant in furtherance of its investment advisory business operations.

*Schwab* also makes available to Registrant other products and services that benefit Registrant but may not benefit its clients' accounts. Some of these other products and services assist Registrant in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations, account statements and the daily download of prices and transactions); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of Registrant's fees from its clients' accounts; and assist with back-office functions, record keeping and client reporting. Many of these services generally may be used to service all or a substantial number of Registrant's accounts, including accounts not maintained at Schwab Institutional.

As indicated above, certain of the support services and/or products received may assist the Registrant in managing and administering client accounts. Others do not directly provide such assistance, but rather assist the Registrant to manage and further develop its business enterprise.

There is no corresponding commitment made by the Registrant to *Axos* or *Schwab* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

Registrant may also recommend that clients establish brokerage accounts with the Schwab Institutional division of *Schwab*, a registered broker-dealer, to maintain custody of clients' assets and to effect trades for their accounts. Registrant is independently owned and operated and not affiliated with *Schwab*.

*Schwab* provides Registrant with access to its institutional trading and custody services, which are typically not available to *Schwab* retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' account assets are maintained at Schwab Institutional, and are not otherwise contingent upon Registrant committing to *Schwab* any specific amount of business (assets in custody or trading). *Schwab's* services include research, brokerage, custody, access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment. For Registrant's client account maintained in its custody, *Schwab* generally does not charge separately for custody but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through *Schwab* or that settle into *Schwab* accounts.

Schwab Institutional also makes available to Registrant other services intended to help Registrant 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, Schwab may make available, arrange and/or pay for these types of services rendered to Registrant by independent third parties. Schwab Institutional may discount or waive fees it 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 Registrant. While as a fiduciary, Registrant endeavors to act in its clients' best interests, and Registrant's recommendation that clients maintain their assets in accounts at *Schwab* may be based in part on the benefit to Registrant of the availability of some of the forgoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by *Schwab*, which creates a conflict of interest.

#### Axos Advisory Board Service

Eric Kies, the Registrant's Chief Executive Officer, serves on the Axos Advisory Board (the "Board"). As described above, the Registrant may recommend that clients establish brokerage accounts with *Axos* to maintain custody of their assets and effect trades for their accounts. The Board consists of representatives from several independent investment advisory firms who have been invited by *Axos* management to participate in meetings and discussions regarding *Axos's* services for independent investment advisory firms and their clients. Board members enter nondisclosure agreements with *Axos* under which they agree not to disclose confidential information shared with them. The Board meets in person approximately twice per year and has periodic conference calls scheduled as needed. Board members are not compensated by *Axos* for their service, but *Axos* does pay for or reimburse Board members' travel, lodging, meals and other incidental expenses incurred in attending Board meetings.

2. The Registrant does not receive referrals from broker-dealers.

3. The Registrant does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Registrant will not seek better execution services or prices from other broker-dealers or be able to “batch” the client’s transactions for execution through other broker-dealers with orders for other accounts managed by Registrant. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

In the event that the client directs Registrant to effect securities transactions for the client’s accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through Registrant. Higher transaction costs adversely impact account performance.

Transactions for directed accounts will generally be executed following the execution of portfolio transactions for non-directed accounts.

The Registrant’s Chief Compliance Officer, Eric Kies, CFP®, remains available to address any questions that a client or prospective client may have regarding the above arrangement.

- B. To the extent that the Registrant provides investment advisory services to a client, the transactions for each client account will generally be effected on an aggregate basis, unless a client has requested cash that requires the Registrant to sell securities in their account or has deposited new assets. Most other trades are entered on an aggregate basis. Under its procedures, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account as part of a trade. The Registrant shall not receive any additional compensation or remuneration as a result of such aggregation.

## **Item 13      Review of Accounts**

- A. For those clients to whom Registrant provides investment supervisory services, account reviews are conducted on an ongoing basis by the Registrant. All investment supervisory clients are advised that it remains their responsibility to advise the Registrant of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with the Registrant on an annual basis.
- B. The Registrant may conduct account reviews upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian

and/or program sponsor for the client accounts. The Registrant may also provide a written periodic report summarizing account activity and performance.

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

- A. Clients and prospective clients should review Item 12 above for information about certain benefits that the Registrant receives and could receive in the future from its clients' accounts' custodians. The Registrant does not believe that any of these services ultimately impact its impartiality and loyalty to its clients.
- B. Neither Registrant nor any of its representatives compensates any person for client referrals.

#### **Item 15      Custody**

The Registrant has the ability to instruct a custodian to deduct its advisory fee from the client's account for certain, if not most, clients. In addition, certain clients have signed asset transfer authorizations which permit the qualified custodian to rely upon instructions from the Registrant to transfer client funds to "third parties." In accordance with the guidance provided in the SEC's February 21, 2017 Investment Adviser Association No-Action Letter, the affected accounts are not subjected to an annual surprise CPA examination.

Clients are provided, at least quarterly, with written transaction confirmations and account statements directly from the broker-dealer/custodian and/or program sponsor for their accounts. The Registrant may also provide a written periodic report summarizing account activity and performance. To the extent that the Registrant provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by the Registrant with the account statements received from the account custodian. The account custodian does not verify the accuracy of the Registrant's advisory fee calculation.

#### **Item 16      Investment Discretion**

The client can determine to engage the Registrant to provide investment advisory services on a discretionary basis. Prior to the Registrant assuming discretionary authority over a client's account, the client shall be required to enter a written agreement, naming the Registrant as the client's attorney and agent in fact, granting the Registrant full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account. Clients who engage the Registrant on a discretionary basis may, at any time, impose restrictions, in writing, on the Registrant's discretionary authority (i.e., limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe the Registrant's use of margin, etc.).

## **Item 17      Voting Client Securities**

- A. The Registrant does not vote client proxies. Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets.
- B. Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact the Registrant to discuss any questions they may have with a particular solicitation.

## **Item 18      Financial Information**

- A. The Registrant does not require clients to pay fees of more than \$1,200, per client, six months or more in advance.
- B. The Registrant is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. The Registrant has not been the subject of a bankruptcy petition.

The Registrant's Chief Compliance Officer, Eric Kies, CFP®, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.