

# **Firm Brochure**

(Part 2A of Form ADV)



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This brochure provides information about the qualifications and business practices of The Advisory Firm of Katherine L Brown, LLC. If you have any questions about the contents of this brochure, please contact us at: (757) 847-3040, or by email at: [info@brownplanning.com](mailto:info@brownplanning.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 Advisory Firm of Katherine L Brown, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

**November 1<sup>st</sup>, 2019**

The Advisory Firm of Katherine L Brown, LLC



## **Material Changes**

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### **Annual Update**

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

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### **Material Changes since the Last Update**

The U.S. Securities and Exchange Commission issued a final rule in July 2010 requiring advisers to provide a Firm Brochure in narrative “plain English” format. The new final rule specifies mandatory sections and organization.

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### **Full Brochure Available**

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: (757) 847-3040 or contact Katherine Brown by email at: [kbrown@brownplanning.com](mailto:kbrown@brownplanning.com).

# Table of Contents

<b>Material Changes</b> .....	<b>i</b>
Annual Update.....	i
Material Changes since the Last Update .....	i
Full Brochure Available .....	i
<b>Advisory Business</b> .....	<b>1</b>
Firm Description .....	1
Principal Owners .....	2
Types of Advisory Services .....	2
Tailored Relationships .....	2
Types of Agreements.....	2
Financial Planning Agreement .....	2
Investment Management Agreement (AUM).....	3
Pension, Profit Sharing, and Corporation Investment Agreement .....	4
Hourly Planning Agreement.....	5
Asset Management Information .....	5
Termination of Agreement .....	6
<b>Fees and Compensation</b> .....	<b>7</b>
Description .....	7
Fee Billing.....	7
Other Fees .....	7
Expense Ratios .....	7
Past Due Accounts and Termination of Agreement .....	8
<b>Performance-Based Fees</b> .....	<b>8</b>
Sharing of Capital Gains .....	8
<b>Types of Clients</b> .....	<b>8</b>
Description .....	8
Account Minimums .....	8
<b>Methods of Analysis, Investment Strategies and Risk of Loss</b> .....	<b>9</b>
Methods of Analysis .....	9
Investment Strategies .....	9
Risk of Loss.....	10

<b>Disciplinary Information</b> .....	<b>11</b>
Legal and Disciplinary.....	11
<b>Other Financial Industry Activities and Affiliations</b> .....	<b>11</b>
Affiliations .....	11
<b>Code of Ethics, Participation or Interest in Client Transactions and Personal Trading</b> .....	<b>11</b>
Code of Ethics .....	11
Participation or Interest in Client Transactions .....	11
Personal Trading .....	12
<b>Brokerage Practices</b> .....	<b>12</b>
Selecting Brokerage Firms .....	12
Best Execution and Directed Brokerage .....	12
Soft Dollars .....	13
Order Aggregation .....	13
<b>Review of Accounts</b> .....	<b>13</b>
Periodic Reviews .....	13
Review Triggers.....	13
Regular Reports for Non-Hourly Clients.....	13
<b>Client Referrals and Other Compensation</b> .....	<b>14</b>
Incoming Referrals .....	14
Referrals Out .....	14
Other Compensation .....	14
<b>Custody</b> .....	<b>14</b>
Account Statements .....	14
Performance Reports.....	15
Net Worth Statements .....	15
<b>Investment Discretion</b> .....	<b>15</b>
Discretionary Authority for Trading.....	15
Limited Power of Attorney.....	15
<b>Voting Client Securities</b> .....	<b>16</b>
Proxy Votes .....	16

<b>Financial Information.....</b>	<b>16</b>
Financial Condition .....	16
<b>Business Continuity Plan.....</b>	<b>16</b>
General.....	16
Disasters .....	16
Alternate Offices .....	16
Loss of Key Personnel.....	16
<b>Information Security Program.....</b>	<b>17</b>
Information Security.....	17
Privacy Notice.....	17
Education and Business Standards .....	18
Professional Certifications .....	18
Katherine L Brown, CERTIFICATIONS.....	19
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# Advisory Business

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## Firm Description

The Advisory Firm of Katherine L Brown, LLC, (“The Advisory”) was founded in 2005, after its owner, Katherine Brown, decided to leave the large corporate model of the securities industry that she had worked in since 2000.

The Advisory provides personalized, confidential financial planning and investment management to individuals, pension and profit sharing plans, trusts, estates, charities, and small businesses. Advice is provided through consultation with the client and may include: determination of financial objectives, identification of financial problems, cash flow management, limited tax strategies, insurance review, investment management, education funding, retirement planning, and estate planning.

The Advisory is strictly a fee-only financial planning and investment management firm. The firm does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. The firm is not affiliated with entities that sell financial products or securities. No commissions in any form are accepted. No finder’s fees are accepted, other than a small monthly fee to an online web listing service at [www.paladinregistry.com](http://www.paladinregistry.com) and a fee to other advisory firms who need to sell part or all of their practice.

Investment advice is an integral part of financial planning. The client has the authority to determine what specific securities are to be bought or sold and to determine the quantity of securities bought within the actual portfolio. The types of securities and ideal allocation amounts are discussed with the client in detail and written down before an account is opened. In accounts for which The Advisory has discretionary authority, investments will be made based on guidelines in the Investment Policy Statement.

The Advisory does not act as a custodian of client assets. The client always maintains asset control. The Advisory places trades for clients under a limited power of attorney.

Each client receives a written evaluation of their situation, often in the form of a net worth statement. Periodic reviews are also communicated to provide reminders of necessary courses of action. More frequent reviews occur but are not necessarily communicated to the client unless immediate changes are recommended.

Other professionals (e.g., lawyers, accountants, insurance agents, etc.) are engaged directly by the client on an as-needed basis. Conflicts of interest will be disclosed to the client in the unlikely event they should occur.

The initial meeting, which may be by telephone, is free of charge if it is considered an exploratory interview to determine the extent to which financial planning and investment management may be beneficial to the client.

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**Principal Owners**

Katherine L Brown holds 100% ownership of all shares in the corporation.

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**Types of Advisory Services**

The Advisory provides investment supervisory services, also known as asset management services; manages investment advisory accounts not involving investment supervisory services; furnishes investment advice through consultations; provides clients summaries such as: charts, graphs, formulas, or other devices which clients may use to evaluate securities.

On more than an occasional basis, The Advisory furnishes advice to clients on matters not involving securities, such as financial planning matters, taxation issues, and trust services that may include estate planning.

The Advisory does NOT provide timing services.

As of November 1<sup>st</sup>, 2019 The Advisory Firm of KLB, LLC manages approximately \$34,000,000 in assets for approximately 46 clients. Approximately \$22,000,000 is managed on a discretionary basis, and \$12,000,000 is managed on a non-discretionary basis. This does not include clients that used our services on an hourly or project basis.

As a result of a change expected to come into effect on April 10, 2017, to the Employment Retirement Income Security Act (ERISA), The Advisory hereby acknowledges that it is a "fiduciary" when the firm's services are subject to the provisions of ERISA of 1974, as amended.

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**Tailored Relationships**

The goals and objectives for each client are documented in our client relationship management system. Investment policy statements are created that reflect the stated goals and objective. Clients may impose restrictions on investing in certain securities or types of securities.

Agreements are not assigned without client consent.

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**Types of Agreements**

The following agreements define the typical client relationships.

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**Financial Planning Agreement**

A financial plan is designed to help the client with all aspects of financial planning without ongoing discretionary investment management after the financial plan is completed.

The financial plan may include, but is not limited to: a net worth statement; a cash flow statement; a review of investment accounts, including reviewing asset allocation and providing repositioning recommendations; a review of retirement accounts and plans including recommendations; a review of insurance policies and recommendations for changes, if necessary; one or

more retirement scenarios; estate planning review and recommendations; and education planning with funding recommendations.

Detailed investment advice and specific recommendations are provided as part of a financial plan. Research services are used to review all of the client's assets and accounts. Implementation of the recommendations is at the discretion of the client.

The fee for a financial plan is predicated upon the facts known at the start of the engagement. This fee is calculated based on the amount of the client's investable assets, subject to a minimum and maximum fixed dollar amount. The fee range is between \$3,000 to \$15,000 per year, may be paid in monthly or quarterly installments, and is negotiable. Fees are charged for all investable assets at the same rate whether held at a new custodian or in the current brokerage or company retirement plan and/or 401k.

In the event that the client chooses to engage an Investment Management Agreement (AUM) in addition to a Financial Planning Agreement, the annual fee for the Financial Planning Agreement is waived.

All clients under the Financial Planning Agreement have access to the firm on an as needed basis throughout the year, similar to a retainer relationship, but at a fixed annual dollar amount. After delivery of a financial plan or financial plan update, future face-to-face meetings may be scheduled as necessary in the office by appointment during business hours.

Clients who are under the Financial Planning Agreement may also hold their assets at the firm's custodian if desired. The current custodians that are used are TD Ameritrade Institutional, Sterling Trust, and American Funds (529-F College Plan). Assets can also be held at a broker or plan of the client's choosing as well, such as Fidelity, Vanguard, or other discount broker.

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### **Investment Management Agreement (AUM)**

Many clients choose to have The Advisory manage their assets continuously in order to obtain ongoing in-depth advice and life planning. The advisor only charges fees based on investable assets for new clients. Fees are charged for all investable assets at the same rate whether held at a new custodian or in the current brokerage or company retirement plan and/or 401k. Realistic and measurable goals for asset allocation and investment choices are set and objectives to reach those goals are defined. As goals and objectives change over time, investment suggestions are made and implemented on an ongoing basis. Managed accounts (AUM) are provided with regular reporting and printouts through Advisor Workstation, as well as periodic rebalancing by the Advisor on a discretionary basis.

The fee for AUM is provided to the client in writing prior to the start of the relationship.

The annual AUM fee is based on a percentage of the investable assets according to the following schedule:

_1.00%_	\$300,000	to	\$500,000
_0.75%_	\$500,001	to	\$1,000,000
_0.50%_	\$1,000,001	to	\$3,000,000
_0.35%_	\$3,000,001	to	\$5,000,000
_0.25%_	\$5,000,001	and	up

Or:

A flat annual rate based on investable assets and billed quarterly with an inflation increase each year.

There is no minimum fee for our Investment Advisory Agreement, but new clients must have a minimum AUM of \$300,000. Current client relationships may exist where the fees are higher or lower than the fee schedule above. Fees are negotiable but must not exceed 2% of the value of AUM.

Some clients may prefer the flat rate to avoid the automatic reset of fees between the account values and the sliding percentage scale.

Although AUM is an ongoing agreement and constant adjustments are required, the length of service to the client is at the client's discretion. The client or the investment manager may terminate an Agreement by written notice to the other party. At termination, fees will be refunded on a pro rata basis for the portion of the quarter completed. The portfolio value at the completion of the prior full billing quarter is used as the basis for the fee computation, adjusted for the number of days during the billing quarter prior to termination.

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### **Pension, Profit Sharing, and Corporation Investment Agreement**

These entities have the option of engaging service on a project basis, to have a consultant for the board of directors to help with investment policy review, plan selection, advice on selecting funds to offer in employee plans, availability to help employees with investment questions and model portfolio planning, quarterly, annual, or projected based reporting on current investment options, and a review of current plan expenses. In addition to corporate prospectuses, the Advisor uses Advisor Workstation; paid service subscriptions offered by Morningstar, to research investments and prepare reports for these entities.

Investment Advisory Services for these entities are billed at a fixed fee or hourly rate based on hours or days needed to complete the work and present findings, answer questions, and be available for meetings. The hourly rate for pension, profit sharing, and corporate advice ranges from \$250.00 to \$450.00 per hour depending on the complexity of the work at hand. The fixed fee is based on the number of hours estimated for the term of the engagement. The

range for these services varies depending on the scope of the work needed, the complexity, and the amount of reporting (quarterly, annually, or project based) involved. Half of the balance or \$500 (whichever is less) is due when the contract is signed, and the remainder is due paid in quarterly installments or by pre-arranged schedule. Fees are negotiable.

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### **Hourly Planning Agreement**

The Advisory provides hourly planning services for clients who need advice on a limited scope of work.

For hourly advice without an on-going relationship the Advisory charges an hourly rate. The hourly rate as of January 31<sup>st</sup>, 2019, is \$250 /hour for limited scope engagements and is subject to change. This service has a one hour minimum billed in ¼ increments thereafter. This service is designed for clients who want to come in for one time walk-in advice or a written plan including only a few areas of financial planning. This would not include ongoing help beyond billable hours specified in the contract for implementing advice given.

Paraplanning work is also available on an hourly basis to other Investment Advisory firms if the firm has an available paraplanner on staff. The discounted corporate rate for paraplanning work is \$50/hr.

Since financial planning is a discovery process, situations occur wherein the client is unaware of certain financial exposures or predicaments.

In the event that the client's situation is substantially different than disclosed at the initial meeting, a revised fee will be provided for mutual agreement. The client must approve the change of scope in advance of the additional work being performed when a fee increase is necessary.

After delivery of a financial plan, future face-to-face meetings may be scheduled as necessary for up to one month. Follow-up implementation work is billed separately at the rate of \$250 per hour. For longer engagements the fee can be paid in advance based on hired work hours. Fees are negotiable and may be different than those listed above.

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### **Asset Management Information**

Assets are invested primarily in no-load or low-load mutual funds and exchange-traded funds, usually through discount brokers or fund companies. Fund companies charge each fund shareholder an investment management fee that is disclosed in the fund prospectus. Discount brokerages may charge a transaction fee for the purchase of some funds. Some clients may hold real estate in self-directed IRAs and be charged by the trust company based on their fee schedule accordingly.

Stocks and bonds may be purchased or sold through a brokerage account when appropriate. The brokerage firm charges a fee for stock and bond

trades. The Advisory does not receive any compensation, in any form, from fund companies.

Investments may also include: equities (stocks), corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities (variable life insurance, variable annuities, and mutual funds shares), U. S. government securities, options contracts, real estate, interests in partnerships in real estate, or 529 plans.

Initial public offerings (IPOs) are not available through The Advisory.

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### **Termination of Agreement**

Either party may cancel any financial planning, advisory contract, or hourly contract at any time and will be refunded any fees due subject to 21 VAC 5-80 B (\*). The client has five days to cancel without penalty if they did not receive the ADV Part II within 48 hours of entering into contract.

If a refund is requested, a refund is given for Investment Advisory clients based on the prorated schedule of days into the quarter. If a Financial Planning contract is cancelled, the amount paid for the year is considered a fixed fee and no refund is due unless notice is given before the contract renewal date\*. For cancellation, an original letter must be received in writing.

Financial Planning contract fees should be cancelled before the renewal date, as they are not refundable after the renewal date because the fee is a flat rate and not based on hours worked.

Investment Management contracts are refunded at any time on a prorated basis based on the day the contract is terminated. If both Financial Planning and Investment Management contracts were engaged and subsequently cancelled, the minimum annual fee for the Financial Planning contract will still be collected if cancelled within the first year.

If an Hourly Contract is cancelled, funds are returned based on hours already worked.

The Advisory may terminate any of the aforementioned agreements at any time by notifying the client in writing. If the client made an advance payment, The Advisory will refund any unearned portion of the advance payment per the stipulations mentioned above. Refunds will be sent by mail within 90 days.

\*Pursuant to 21 VAC 5-80 B the client acknowledges that if they did not receive the ADV Part II within 48 hours of entering into an advisory contract that they have the right to terminate the contract without penalty. If the client did not receive the ADV Part II 48 hours beforehand they have the right to terminate the contract without penalty within five calendar days after entering the contract.

## Fees and Compensation

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### Description

The Advisory bases its fees on a percentage of assets under management, hourly charges, and fixed fees (not including subscription fees). The advisor only charges fees based on investable assets for new clients. Fees are charged for all investable assets at the same rate whether held at a new custodian or in the current brokerage or company retirement plan and/or 401k. The Investment Advisor will not be compensated on the basis of a share of capital gains or capital appreciation of the funds of any portion of the funds of the client.

Some agreements may be priced based on the complexity of work, especially when asset management is not the most significant part of the relationship.

Financial planning is priced at a fixed rate based on asset size or at an hourly rate.

Fees are negotiable.

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### Fee Billing

Investment management fees are billed quarterly, in advance, meaning that we invoice you before the three-month billing period has begun. Payment in full is expected upon invoice presentation. Fees are usually deducted from a client account to facilitate billing. The client must consent in advance to direct debiting of their investment account.

Fees for financial plans are billed with a \$500 deposit due at signing, 50% due advance, and the balance due upon delivery of the financial plan.

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### Other Fees

Custodians may charge transaction fees on purchases or sales of certain mutual funds and exchange-traded funds. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security.

The Advisory, in its sole discretion, may waive its minimum for assets under management and/or charge a lesser investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.).

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### Expense Ratios

Mutual funds generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 0.50 means that the mutual fund company

charges 0.5% for their services. These fees are in addition to the fees paid by you to The Advisory.

Performance figures quoted by mutual fund companies in various publications are after their fees have been deducted.

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### **Past Due Accounts and Termination of Agreement**

The Advisory reserves the right to stop work on any account that is more than 30 days overdue. In addition, The Advisory reserves the right to terminate any financial planning engagement where a client has willfully concealed or has refused to provide pertinent information about financial situations when necessary and appropriate, in The Advisory's judgment, to providing proper financial advice. Any unused portion of fees collected in advance will be refunded within 90 days.

## **Performance-Based Fees**

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### **Sharing of Capital Gains**

Fees are not based on a share of the capital gains or capital appreciation of managed securities.

The Advisory does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

## **Types of Clients**

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### **Description**

The Advisory generally provides investment advice to individuals, pension and profit sharing plans, trusts, estates, or charitable organizations, corporations or business entities.

Client relationships vary in scope and length of service.

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### **Account Minimums**

While there is no minimum fee for Investment Advisory Agreement, clients must have a minimum AUM of \$300,000. There is no minimum account size for clients under the Financial Planning Agreement or Hourly Agreement, but there is a minimum annual fee of \$3,000 for the Financial Planning Agreement.

Depending upon circumstances, The Advisory may recommend that the client switch to an *Hourly Agreement* with the client if assets have diminished significantly or services have not been utilized for a lengthy period of time. In the event that a client switches to hourly, any assets with the custodian at TD

Ameritrade or American Funds will be moved to the retail department. American Funds reserves the right to turn “F” shares into loaded “A” shares for amounts that have not been held for at least one year. TD Ameritrade may have a fees structure on the retail side less or more than the fee structure with The Advisory.

The Advisory has the discretion to waive the account minimum. Other exceptions will apply to The Advisory and their relatives, or relatives/friends of existing clients.

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

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### **Methods of Analysis**

Security analysis methods may include fundamental analysis and/or cyclical analysis.

The main sources of information include financial newspapers and magazines, research materials prepared by others, corporate rating services, annual reports, prospectuses, and filings with the Securities and Exchange Commission.

Other sources of information that The Advisory may use include Morningstar Advisor Workstation research program information, TD Ameritrade’s research engine, Value line, Magazines, classes, seminars, NAPFA study groups, and the World Wide Web.

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### **Investment Strategies**

The primary investment strategy used on client accounts is strategic asset allocation utilizing a core and satellite approach. This means that we use passively-managed index and exchange-traded funds as the core investments, and then add actively-managed funds where there are greater opportunities to make a difference. Portfolios are globally diversified to control the risk associated with traditional markets. The firm uses an academic approach by tilting portfolio models towards value and small cap equities. Smaller sectors such as emerging markets and commodity based securities are considered. Macro-economic factors may be taken into consideration to add diversity to the portfolio.

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time. Each client executes an Investment Policy Statement that documents their objectives and their desired investment strategy.

Once the Advisor is engaged, a Client’s objectives, goals, risk tolerance, financial status, and risk exposure are studied. Asset allocation is the strategy used for investment portfolio structure. The Advisory uses allocation across different asset classes (small cap and large cap, domestic and foreign, value and growth, high rated bonds and lower rated, and or short term and

longer term bonds, ext.) as appropriate for each situation. A long term hold and re-allocate strategy is favored. All recommendations are based on publicly available reports, computerized programs and models, and research materials as discussed below.

Other strategies may include long-term purchases, short-term purchases, trading, short sales, margin transactions, and options.

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## **Risk of Loss**

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment 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 is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **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.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **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.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like. Gold and other commodity based funds may fluctuate more significantly based on currency value and/or stock values. Investments in emerging markets or areas with war or political volatility may shift more rapidly.
- **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.

## **Disciplinary Information**

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### **Legal and Disciplinary**

The firm and its employees have not been involved in legal or disciplinary events related to past or present investment clients.

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

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### **Affiliations**

The Advisory has no affiliations or arrangements that are material to its advisory or its clients with a related person who is a broker-dealer, investment company, other investment advisor, financial planning firm, commodity pool operator, commodity trading adviser or futures commission merchant, banking or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant, real estate broker or dealer, or an entity that creates or packages limited partnerships.

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

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### **Code of Ethics**

The Advisory has a code of ethics that is available upon request.

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

The Advisory and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades.

There may be potential for a conflict of interest between Advisory Management (AUM) which is billed based on a percentage of assets under management versus flat retainer or hourly clients. This is because the fees for AUM can sometimes be higher than they would be with flat retainer agreement or hourly agreement under the Financial Planning and Hourly

contracts. Furthermore, the flat rate for Financial Planning may be more than the AUM fee in some situations.

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### **Personal Trading**

The President of The Advisory is Katherine Brown. She reviews all trades. Her trades are subject to reviewed by the state regulatory officers. Katherine Brown ensures that the personal trading does not affect the markets, and that clients of the firm receive preferential treatment. Since Katherine and her family make small mutual fund trades or exchange-traded fund trades, the trades do not affect the securities markets.

## **Brokerage Practices**

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### **Selecting Brokerage Firms**

The Advisory does not have any affiliation with product sales firms. Specific custodian recommendations are made to Clients based on their need for such services. The Advisory recommends custodians based on the proven integrity and financial responsibility of the firm, ease of transaction and correspondence/reporting information, and the best execution of orders at reasonable commission rates.

The Advisory recommends discount brokerage firms and trust companies (qualified custodians), such as TD Ameritrade, Sterling Trust, Vanguard, Fidelity, and American Funds. The Advisory does not receive fees or commissions from any of these arrangements.

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### **Best Execution and Directed Brokerage**

Trading fees charged by the custodians is also reviewed on a periodic basis. The Advisory does not receive any portion of the trading fees.

The client is always permitted to direct brokerage. They can place trade orders online at any time or call the custodian directly to place trades and execute transactions. In the event that the client contacts the firm or the custodian to direct brokerage, the client may not receive the most favorable execution of client transactions. Directing brokerage may cost the client more money due to the potential for higher brokerage commissions for trades that are not aggregated or less favorable prices depending on the time of trade or custodian used. Not all advisors require their clients to direct brokerage.

When a client does not have an AUM contract with The Advisory or does not have a broker dealer that allows for a limited power of attorney for trading, the client must direct trades that are placed. Assistance is given by contacting the client beforehand and/or conferencing the call to place trades.

The Advisory leaves it up to the client to choose a broker dealer. However, TD Ameritrade Institutional is often recommend to clients since The Advisory has a platform available through them to do online trading, transaction

downloads, billing, and research. These services offered through TD Ameritrade may present a conflict of interest when recommending clients to move accounts to TD Ameritrade. Vanguard, Fidelity, and American Funds are also often recommended.

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**Soft Dollars**

The Advisory does not receive any soft dollar fees or credits to its knowledge.

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**Order Aggregation**

Most trades are mutual funds or exchange-traded funds where trade aggregation does not garner any client benefit.

## Review of Accounts

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**Periodic Reviews**

Clients who engage the Investment Management receive reports outlining market exposure, allocation, and account performance on a quarterly or semi-annual basis. Account reviews are performed quarterly, semi-annually, or annually by advisor Katherine Brown, President. Account reviews are performed more frequently when market conditions dictate. It is important that the client provide the Advisory updated investment statements for accounts that are not kept at a custodian (such as a 401(k) or outside brokerage account) on a regular basis. Statements can be sent by fax, mail, or encrypted e-mail.

Clients who only engage in Financial Planning contracts have their accounts reviewed as requested. It is recommended that Financial Planning clients who are not paying for Investment Management set up appointments in the office or by conference call to review their investment allocation at least twice a year. These accounts are held without discretionary trading so all transactions must be made with prior client permission after reviewing goals and objectives.

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**Review Triggers**

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's own situation.

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**Regular Reports for Non-Hourly Clients**

Account reviews are done by Katherine Brown. She considers the client's current security positions and the likelihood that the performance of each security will contribute to the investment objectives of the client.

All clients may receive updates on their financial plan and/or investments as they deem necessary. Communication by The Advisory is done on at least an annual basis by phone, e-mail, or regular mail. This may include periodic

newsletters, recommendations to set up a review, requests for updated investment statements or plan information, snapshot investment reports, or investment summaries.

*Investment Advisory Agreement* clients, receive written quarterly, semi-annual, or annual performance reports.

*Financial Planning* client updates are done when appointments are scheduled with the advisor. The written updates may include a net worth statement, portfolio statement, a comparison of the current investment holdings with a model, an updated financial plan, and/or a summary of objectives and progress towards meeting those objectives.

## **Client Referrals and Other Compensation**

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### **Incoming Referrals**

The Advisory has been fortunate to receive many client referrals over the years. The referrals come from current clients, estate planning attorneys, accountants, the National Association of Personal Financial Advisors (NAPFA), other advisors, personal friends of contacts, and other similar sources. The Advisory pays an annual fee to be a member of NAPFA. The firm may also pay advisors who refer clients after the sale of their practice.

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### **Referrals Out**

The Advisory does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

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### **Other Compensation**

The Advisory does not receive any compensation other than the amount stated in the contract paid by the client. The Advisory is a *fee-only* (as opposed to fee-based) firm.

## **Custody**

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### **Account Statements**

Most clients opt to open accounts at TD Ameritrade, Fidelity, Vanguard, or American Funds (529 plans). If so, these assets are held at qualified custodians. The custodians provide account statements directly to clients at their address of record at least quarterly. Clients are encouraged to keep all trade confirmations and custodian statements filed in a secure location for tax reporting information.

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**Performance Reports**

Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided by The Advisory. Performance reports are done on a very extensive program platform by Morningstar, and always subject to computer, program, and/or human errors.

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**Net Worth Statements**

Clients are frequently provided net worth statements and net worth graphs that are generated from our client relationship management system. Net worth statements contain approximations of bank account balances provided by the client, as well as the value of land and hard-to-price real estate. The net worth statements are used for long-term financial planning where the exact values of assets are not material to the financial planning tasks.

## Investment Discretion

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**Discretionary Authority for Trading**

The Advisory accepts discretionary authority to manage securities accounts on behalf of clients for its Investment Management clients. The Advisory has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. However, The Advisory consults with the client prior to each trade to obtain concurrence if exceptions to trading authorization have been specified in the contract.

The client approves the custodian to be used and the commission rates paid to the custodian. The Advisory does not receive any portion of the transaction fees or commissions paid by the client to the custodian on certain trades.

Discretionary trading authority facilitates placing trades in your accounts on your behalf so that we may promptly implement the investment policy that you have approved in writing.

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**Limited Power of Attorney**

A limited power of attorney is a trading authorization for this purpose. You sign a limited power of attorney so that we may execute the trades that you have approved.

## Voting Client Securities

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### Proxy Votes

The Advisory does not vote proxies on securities. Clients are expected to vote their own proxies.

## Financial Information

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### Financial Condition

The Advisory does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because The Advisory does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than \$500 per client, and six months or more in advance.

## Business Continuity Plan

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### General

The Advisory has a Business Continuity Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications, or services.

### Disasters

The Business Continuity Plan covers natural disasters such as snow storms, hurricanes, tornados, and flooding. The Plan covers man-made disasters such as loss of electrical power, loss of water pressure, fire, bomb threat, nuclear emergency, chemical event, biological event, T-1 communications line outage, Internet outage, railway accident and aircraft accident. Electronic files are backed up daily and archived offsite.

### Alternate Offices

Alternate offices are identified to support ongoing operations in the event the main office is unavailable. It is our intention to contact all clients within five days of a disaster that dictates meeting our clients in an alternate location.

### Loss of Key Personnel

The Advisory has reviewed a Business Continuation plan with another financial advisory firm that is a part of the National Association of Personal Financial Advisors to support The Advisory in the event of Katherine Brown's serious disability or death.

# Information Security Program

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## Information Security

The Advisory maintains an information security program to reduce the risk that your personal and confidential information may be breached.

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## Privacy Notice

The Advisory is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of nonpublic information that we collect from you may include information about your personal finances, information about your health to the extent that it is needed for the financial planning process, information about transactions between you and third parties, and information from consumer reporting agencies, e.g., credit reports. We use this information to help you meet your personal financial goals.

With your permission, we disclose limited information to attorneys, accountants, and mortgage lenders with whom you have established a relationship. You may opt out from our sharing information with these nonaffiliated third parties by notifying us at any time by telephone, mail, fax, email, or in person. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf.

We maintain a secure office to ensure that your information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment.

We do not provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including clerical staff, financial service companies, consultants, our company CPA's, company filers, bookkeepers, computer technicians, banks, and auditors. Federal and state securities regulators may review our Company records and your personal records as permitted by law.

Personally identifiable information about you will be maintained while you are a client, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our privacy policy is expected to change. We are required by law to deliver this *Privacy Notice* to you annually, in writing.

## Brochure Supplement (Part 2B of Form ADV)

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### Education and Business Standards

The Advisory requires that advisors in its employ have a bachelor's degree and either pass the Series 65 Securities Law Exam or hold a CFP®. Interns must be enrolled in college or a program towards competing these requirements. Paraplanners may be in the process of completing these credentials while working but must have successfully completed the Series 65 exam. Examples of acceptable coursework include: an MBA, a NAPFA or CFP® approved college program, a CFA, RP©, or be a NAPFA Registered Advisor.

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### Professional Certifications

Employees acting as Senior Advisors have earned certifications and credentials that are required to be explained in further detail.

NAPFA Registered Advisor (NAPFA): NAPFA Registered Advisors are certified by the National Association of Personal Financial Planners and approved to use the “fee-only” logo. Certification requirements:

- Bachelor’s degree from an accredited college or university.
- Completion of the financial planning education requirements set by NAPFA which includes fifteen credits of advanced college level work in each of the following areas: income taxes, investments, estate planning, retirement planning, and risk management.
- Successful approval by the board of a sample Financial Planning case.
- Three-year qualifying full-time financial planning work experience.
- 60 hours of continuing education every two years including at least five of those hours in six different areas of financial planning.

Personal Financial Planner (PFP): The Personal Financial Planner suffix is usually placed after the name of a consultant who has successfully completed the Financial Planning program through the University of California Certificate Program. To complete the program the following requirements must be met:

- Successful completion of nine graduate level college courses over the course of two to five years.
- Courses include Survey of Financial Planning, Financial Analysis of Personal Financial Planning, Estate Planning, Fundamentals of Tax Preparation I, Insurance in Personal Financial Planning, Retirement Plans and Other Employee Benefits, Investments in Personal Financial Planning, Income Taxation
- Successful completion of a Financial Planning Practicum with case study and hypothetical Comprehensive Financial Plan

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**Katherine L Brown, CERTIFICATIONS**

Title: Senior Investment Advisor/ CEO  
Born: 1976  
Education: *Stanford University*, Palo Alto, CA – B.S. '98  
*University of California Los Angeles* – Certificate Program in  
Personal Financial Planning '09  
Designations: NAPFA Registered Advisor, PFP (UCLA)

Work History:

Advisory Firm of Katherine L Brown, LLC	2005- Present
Financial Security	2003-2005
Mass Mutual Financial Group	2001-2003
The MONY Group	2000-2001
Pacific Northwest Mortgage Corp.	1996-2000

Other Business Activities: None  
Additional Compensation: None

Supervision:  
Katherine Brown is the President of the firm:  
Phone: (757) 847-3040

Arbitration Claims: None  
Self-Regulatory Organization or Administrative Proceeding: None  
Bankruptcy Petition: None