

**Part 2A of Form ADV: Firm Disclosure Brochure**

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This brochure provides information about the qualifications and business practices of Financial Management Strategies, Inc. If you have any questions about the contents of this brochure, please contact us at 216-642-7878, or by e-mail to [jknox@vanfin.com](mailto:jknox@vanfin.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 Financial Management Strategies, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 120818.

## ITEM 2 MATERIAL CHANGES

The SEC adopted "Amendments to Form ADV" in July, 2010. This Firm Brochure, dated 3/29/2019, is our updated document prepared according to the SEC's disclosure requirements and rules.

This Item is used to provide our clients with a summary of new and/or updated information. We will inform you of the revision(s) based on the nature of the updated information. There are two material changes included with this updated document.

1. Item 1 – Cover Page. Please note we have moved our firm to a new location. The updated address is included in this section. The firm phone, FAX, and e-mail contact information remains the same.
2. Item 9 – Disciplinary Information. FMS self-reported to the SEC under the Share Class Selection Disclosure Initiative (SCSD) that the firm may not have adequately disclosed the conflicts of interest relating to the receipt by the firm's associated persons of mutual fund 12b-1 servicing fees and the selection of mutual fund share classes that pay such fees. Without admitting or denying the findings contained in the order, FMS consented to the entry of an Order regarding this matter. Details of the findings and the Order may be found at <https://www.sec.gov/litigation/admin/2019/ia-5144.pdf>.

Consistent with the SEC disclosure requirements and rules, you will receive a summary of any material changes to this and subsequent Brochures within 30 days of such material changes. This Brochure is also updated within 90 days of the close of our business' fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

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## **ITEM 4    ADVISORY BUSINESS**

Financial Management Strategies, Inc. (hereinafter “FMS”) is a SEC-registered investment adviser with its principal place of business located in Ohio. FMS began conducting business in 1999. Jeffrey Charles Knox is the firm’s principal shareholder.

FMS offers the following advisory services to our clients:

### **Individual Portfolio Management**

Our firm provides continuous asset management of client funds based on the individual needs of each client. Through personal discussions in which goals and objectives based on the client's particular circumstances are established, we develop the client's personal investment policy. We create and manage a portfolio based on that policy. During our data-gathering process, we determine the client’s individual objectives, time horizons, risk tolerance, and liquidity needs. As appropriate, we may also review and discuss a client’s prior investment history, as well as family composition and background.

We manage these advisory accounts on a discretionary or non-discretionary basis. Account supervision is guided by the client's stated objectives (i.e., maximum capital appreciation, growth, income, growth and income, or capital preservation) as well as tax considerations.

In the firm’s sole discretion, clients may impose reasonable restrictions in writing on investing in certain securities, types of securities, or industry sectors. Clients retain individual ownership of all securities.

Once the client's portfolio has been established, we review the portfolio quarterly, and, if necessary, rebalance the portfolio when the investment holdings differ from the target asset allocation for the portfolio in a manner that changes either the investment objective or risk of the portfolio.

Our investment recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company and will generally include advice regarding the following securities:

- Exchange-listed securities
- Securities traded over-the-counter
- Foreign issuers
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Municipal securities
- Mutual fund shares
- United States governmental securities
- Options contracts on securities
- Interests in real estate partnerships
- Variable annuities

Because some types of investments involve additional risk, they will only be recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

To ensure that our initial determination of an appropriate portfolio remains suitable and that the account continues to be managed in a manner consistent with the client's financial circumstances, we will:

1. at least annually, contact each client to determine whether there have been any changes in the client's financial situation or investment objectives, and whether the client wishes to impose investment restrictions or modify existing restrictions;
2. be reasonably available to consult with the client; and
3. maintain and update client suitability information.

## **Model Portfolio Management**

Our firm provides continuous portfolio management services to clients using model asset allocation portfolios. Each model portfolio is designed to meet a particular investment objective.

### *Aggressive Growth*

This portfolio is designed for an investor that has no need for current income and is willing to accept the risk of significant fluctuations in market value. The portfolio is nearly 100% invested in equity funds with more weighting to foreign, small-cap, and mid-cap equities than in other more conservative portfolio options.

### *Capital Accumulation*

This portfolio is designed to seek above average long-term growth while reducing market volatility through some bond investments. Approximately 80% of the portfolio is held in equity funds but there is less exposure to foreign, small-cap, and mid-cap equities than in the aggressive model. The remainder of the portfolio is held in bonds.

### *Balanced*

This portfolio is designed to seek some capital growth through equity investments with reduced volatility through bond holdings for the investor seeking modest long-term growth and is willing to accept lower market returns in exchange for reduced portfolio risk. The portfolio is comprised of approximately 60% equity based funds with the majority held in U.S. large company funds. The remainder of the portfolio is held in bonds for both income and to reduce volatility. Depending upon current economic conditions, there may be a small position held in commodity based funds.

### *Income and Capital Preservation*

This portfolio is primarily invested in funds that provide current income while seeking some principal growth to offset the impact of inflation over the years with a small equity and commodity position. Overall, there is an emphasis on preservation of capital.

### *Total Return*

This portfolio seeks to maximize portfolio return based upon current market and economic conditions for the investor who is willing to accept significant capital risk and market volatility. With the emphasis on return only, portfolios may or may not be diversified and there is no target

asset allocation for the portfolio.

### Bond

This portfolio provides income through investment in corporate, government, high yield, and global bonds for an investor seeking current income without any expectation of capital growth.

### Short Term Income Fund

This portfolio is designed to provide income through investment in short duration corporate and government bonds for an investor seeking higher levels of current income without any expectation of capital growth as an alternative to cash or money market type investments. This portfolio is invested entirely in short term bond and senior floating rate funds.

For smaller accounts (Up to \$99,999), we have three (3) model asset allocation portfolios that typically have less than five fund holdings. Each model portfolio is designed to meet a particular investment goal.

### Growth Portfolio

This portfolio is designed to seek above average long-term growth while reducing market volatility through some bond investments. Approximately 75% of the portfolio is held in equity funds with the remainder of the portfolio held in bonds.

### Moderate Portfolio

This portfolio is designed to seek some capital growth through equity investments with reduced volatility through bond holdings for the investor seeking modest long-term growth and is willing to accept lower market returns in exchange for reduced portfolio risk. The portfolio is comprised of approximately 50% equity funds with the remainder of the portfolio held in bonds for both income and to reduce volatility.

### Conservative Portfolio

This portfolio is designed primarily to provide income with approximately 75% of the portfolio held in corporate, government, high yield, and global bonds with the remaining 25% in equity funds to seek principal growth to offset the impact of inflation over the years. Overall, there is an emphasis on preservation of capital.

Through discussions with the client, we determine the client's financial goals, risk profile, and investment objective for the portfolio. Based on those discussions, we select the portfolio that best meets the client's financial and risk objectives. Portfolios are managed based on the portfolio's investment and risk objectives rather than on each client's individual needs. Clients, nevertheless, have the opportunity to place reasonable restrictions on the types of investments to be held in their account. Clients retain ownership of all securities. We manage advisory accounts on a discretionary or non-discretionary basis. Account supervision is guided by the client's stated account and risk objectives (i.e., maximum capital appreciation, growth, income, growth and income, or capital preservation), as well as tax considerations.

Once the client's portfolio has been established, we review the portfolio annually, and if necessary, rebalance the portfolio on an annual basis when the investment holdings of a portfolio differ from the target asset allocation in a manner that changes either the investment objective or risk of the portfolio, or based on a change to the client's individual needs.

Our investment recommendations are not limited to any specific product or service offered by a broker dealer or insurance company and will generally include advice regarding the following securities:

- Exchange-listed securities
- Mutual fund shares

Because some types of investments involve additional degrees of risk, they will only be recommended or implemented when consistent with the client's stated investment objectives, tolerance for risk, liquidity, and suitability as detailed in their Investment Policy Statement.

To ensure that our initial determination of an appropriate model portfolio remains suitable and that the account continues to be managed in a manner consistent with the client's financial circumstances, we will:

1. at least annually, review each participating client to determine whether there have been any changes in the client's financial situation or investment objectives, and whether the client wishes to impose investment restrictions or modify existing restrictions;
2. be reasonably available to consult with the client; and
3. maintain and update client suitability (i.e. account objective and risk) information.

### **Pension Consulting Services**

Our firm provides advisory services separately or in combination to pension, profit sharing, 403(b), and 401(k) plans. Clients may choose to use any or all of these services.

#### *FMS Managed Retirement Plans*

We select and provide on-going monitoring of funds that are offered as investment options to participants in pension, profit-sharing, 403(b), and 401(k) plans. In this capacity, we provide investment advice to both the plan Trustee(s) and participants as a fiduciary under either Section 3(21) or 3(38) of the Employee Retirement Income Security Act (hereinafter "ERISA") as specified in the Client's Investment Management Agreement. The fund selection, monitoring, and review process is done within the guidelines established in our Investment Policy Statement for the plan.

#### *FMS Managed Retirement Portfolios*

For retirement participants that would like prefer professional investment guidance in the selection of their investments, we manage seven (7) portfolios that can be selected as investment options. Portfolios have been developed using the concept of "asset allocation" and are managed to maximize the investment return for varying degrees of risk. Management of each portfolio is done within the guidelines of our Investment Policy Statement, which outlines the fund selection, monitoring, management process, and asset allocation for each portfolio. Participants are provided with an "Investor Profile" to assist each in determining the appropriate portfolio for investment based upon their personal time horizon and risk tolerance. Election of investment into any portfolio managed by FMS is at the sole discretion of the participant. There are no additional fees paid to us by the participant or any other party as a result of investment into any managed portfolio.

### Employee Education and Communications:

For pension, profit sharing, 403(b), and 401(k) plan clients with individual plan participants exercising control over assets in their own account ("self-directed plans"), we may also provide educational support, investment, and financial planning related workshops designed for the plan participants. The nature of the topics to be covered will be determined by us under the guidelines established in ERISA Section 404(c). The educational support and investment workshops may provide plan participants with investment advice in accordance with ERISA and DOL guidelines and regulations.

## **Financial Planning**

We provide financial planning services. Financial planning is a broad-based evaluation of a client's current and future financial situation by using currently known variables to predict future cash flows, asset values and withdrawal plans. Through the financial planning process, all questions, information and analysis are considered as they impact and are impacted by the entire financial and life situation of the client. Clients purchasing this service receive a written report which provides the client with a detailed financial plan designed to assist the client achieve his or her financial goals and objectives.

In general, a financial plan can address any or all of the following areas:

- *Income Tax and Cash Flow.* We analyze the client's income, spending and tax situation and focus on ways to reduce and/or defer current taxation and create a plan that illustrates the impact of various investment and planning strategies on the client's current and future income.
- *Investments.* We analyze current investments and create an asset allocation model for investments based upon the client's risk tolerance, time horizon, and planning objectives that can be used as a guide in making current and future investment decisions.
- *Education Funding.* We review planning options for meeting future education expenses.
- *Retirement Planning.* We analyze the client's current situation and make savings and investment recommendations to help the client achieve his or her retirement goals.
- *Disability Needs.* We review current insurance coverage and make certain adequate income is available in the event of a disability.
- *Long Term Care Planning.* We review methods to meet the financial cost of long term care and review strategies for preserving and protecting assets.
- *Estate Planning.* We work with clients to arrange for the desired distribution of assets at death and discuss strategies to minimize estate taxes and expenses.
- *Life Insurance and Survivor Income Planning.* We review existing policies and coordinate life insurance coverage with other assets to make certain surviving family members have adequate assets to provide income that meets their planning needs.
- *Property and Liability Insurance.* We review coverage to make certain limits are adequate to protect assets from potential claims.

The planning process begins with a comprehensive review of the client's current situation. Prior to

the initial planning meeting, we ask the client to gather information on all existing assets and liabilities including employee benefit programs, retirement plans, investments, all insurance policies, wills and trusts, tax returns, and any other relevant information and documents. During the data gathering interview, this information is reviewed, financial and other planning objectives are established and prioritized, and risk tolerance is determined. We carefully review the information and documents supplied by the client and prepare a detailed written plan and provide planning recommendations. Implementation of any planning recommendations is entirely at the client's discretion. Should the client choose to implement the recommendations contained in the plan, we will assist the client and coordinate our work with the client's attorney, accountant, insurance agent, and/or investment advisor.

We can also provide limited or specific planning services to clients and provide recommendations and advice on a particular problem or specialized matter related to financial, investment, business, tax, and/or estate planning matters.

Financial planning recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. All recommendations are of a generic nature.

### **Consulting Services**

Clients can also receive investment advice or planning assistance on a more focused basis. We may provide limited or specific planning services to clients and provide recommendations and advice on a particular problem or specialized matter related to financial planning, investment, business, tax, and or estate planning. Consulting recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. All recommendations are of a generic nature.

### **Amount of Managed Assets**

As of 12/31/2018, we were actively managing 1,176 accounts with assets of \$354,674,638. Of this total amount, 1,036 accounts with assets of \$228,769,974 are managed on a discretionary basis and 140 accounts with assets of \$125,904,664 are managed on a non-discretionary basis.

## **ITEM 5 FEES AND COMPENSATION**

### **Portfolio Management and Model Portfolio Management Fees**

Our annual fees for both our Individual and Model Portfolio Management Services are based upon a percentage of assets under management and generally range from .50% to 1.50%. We use both a flat or level fee schedule and a blended tiered fee schedule.

For fees based on a flat or level fee schedule, the annualized fee for Portfolio Management Services is a maximum of 1.50% of the assets under management

For fees based on a tiered fee schedule, the annualized fee for Portfolio Management Services is charged as a percentage of assets under management, according to the following schedule:

<b><u>Tiered Assets Under Management</u></b>	<b><u>Annual Fee</u></b>
\$ 0 - \$ 100,000	1.50%
\$100,001 - \$250,000	1.50%
\$250,001 - \$500,000	1.25%
\$500,001 - \$1,000,000	1.00%
\$1,000,001 and Above	1.00%

For example, based upon the above fee schedule, for an account with \$600,000 in assets the annual fee would be as follows:

<b><u>Tiered Assets Under Management</u></b>	<b><u>Annual Fee Calculation</u></b>
\$ 0 - \$ 100,000	\$100,000 x 1.50% = \$1,500
\$100,001 - \$250,000	\$150,000 x 1.50% = \$2,250
\$250,001 - \$500,000	\$250,000 x 1.25% = \$3,125
\$500,001 - \$1,000,000	\$100,000 x 1.00% = \$1,000
	<b>Total Fee \$7,875</b>

Fees are deducted from cash assets held in a client's custodial account. For all accounts, client's initial fee is due when the managed account is opened and is based on the opening value of the account. The first payment will be prorated to cover the period from that date through the end of the current calendar quarter. Thereafter, the client's fee will be payable at the beginning of each calendar quarter for such quarter and the fee will be based on the fair market value of the assets in the account on the last business day of the preceding calendar quarter. There is no additional fee charged for any subsequent deposits made to the Account during a quarter or any fee refund for any subsequent withdrawals made from the Account during a quarter. If this Agreement is terminated for any reason, a pro-rata fee refund for the remainder of the quarter will be credited to the client's account.

If the managed account is closed for any reason, the client will be credited that portion of the fee that relates to the number of days remaining in the quarter after the date of termination.

#### **Transaction Fees and Charges – Advisory Plus and Advisory One Billing Options**

Transaction charges for purchases, sales, and/or redemptions as well as normal brokerage account charges and fees (i.e. returned check fee, overnight charges, ACH, return check, etc.) apply to all accounts. Clients have a choice of two (2) options for payment of any transaction related charges. Under the "Advisory Plus" platform, client pays all transaction related charges for trades made in the account. Under the "Advisory One" platform, all transaction related charges are paid by client's Investment Adviser.

#### **Limited Negotiability of Advisory Fees**

Although we have established the aforementioned fee schedule(s), we retain the discretion to negotiate alternative fees on a client-by-client basis. The client's individual circumstances are considered in determining the fee schedule. These factors include the complexity of the client's needs, total amount of assets to be placed under management, anticipated future or additional deposits to accounts; related accounts; and other factors. The specific annual fee schedule for a client is contained in the management agreement between FMS and each client.

There is no minimum account size. We may, at our discretion, group certain related client accounts together for the purpose of determining total annualized fees.

### **Pension Consulting Fees**

Fees for services to pension, profit-sharing, 403(b), and 401(k) plans depend on the nature and scope of the services to be provided and the complexity of each client's situation. Fees can be based upon an hourly fee or fixed fee arrangement or upon a percentage of assets under management. All fee arrangements are agreed upon prior to entering into a contract with any client.

For services based upon an hourly fee arrangement, the hourly rate may range from \$75 and \$250 per hour. Although the length of time it will take to provide our consulting services will depend on each client's situation, we will provide an estimate for the total hours at the start of the advisory relationship.

For services based on a fixed fee basis, fees typically range from \$1,000 to \$10,000, depending on the scope of services to be provided and the specific arrangement agreed upon with the client.

We may request a retainer of 50% of the estimated or agreed upon fee at the time of completion of our initial consulting session with the client; however, advance payment will never exceed \$1,200 for work that will not be completed within six months from the date of the advisory agreement. The balance of any fee is due upon completion of the consulting agreement.

For plans where we are providing complete investment management services as the plan's investment adviser, fees are generally based on a percentage of assets under management, according to the following tiered schedule:

<b><u>Tiered Assets Under Management</u></b>	<b><u>Annual Fee</u></b>
\$0 - \$500,000	1.50%
\$500,001 - \$1,000,000	1.25%
\$1,000,001 - \$2,000,000	1.00%
\$2,000,001 and Above	1.00%

For example, based upon the above tiered fee schedule, for an account with \$1,200,000 in assets the annual fee would be as follows:

<b><u>Tiered Assets Under Management</u></b>	<b><u>Annual Fee Calculation</u></b>
\$0 - \$500,000	$\$500,000 \times 1.50\% = \$ 7,500$
\$500,001 - \$1,000,000	$\$500,000 \times 1.25\% = \$ 6,250$
\$1,000,000 - \$2,000,000	$\$200,000 \times 1.00\% = \$ 2,000$
	<b>Total Fee</b> <b>\$15,250</b>

Fees are deducted on a pro-rata basis from each plan participant's account. Client's initial fee is due when the assets are placed under management and is based on the opening value of the account. The first payment will be prorated to cover the period from that date until the end of the calendar quarter. Thereafter, the client's fee will be payable at the beginning of each calendar quarter for such quarter and the fee will be based upon the fair market value of the assets in the account on the last

day of the preceding calendar quarter. There is no adjustment in fees for any deposits made or funds withdrawn during a quarter. If a plan is terminated or transferred to another adviser or entity, the client will be refunded that portion of the fee that relates to the amount of days remaining in the quarter after the date of termination.

### **Financial Planning Fees**

Financial Planning fees are determined based on the nature of the services being provided and the complexity of each client's situation. All fees arrangements are agreed upon prior to entering into a contract with any client.

For services based upon an hourly fee arrangement, the hourly rate may range from \$75 and \$250 per hour. Although the length of time it will take to provide a financial plan will depend on each client's personal situation, we will provide an estimate for the total hours at the start of the advisory relationship.

For services based on a fixed fee basis, fees typically range from \$250 to \$10,000, depending on the scope of services to be provided and the specific arrangement agreed upon with the client.

We may request a retainer of 50% of the estimated or agreed upon fee at the time of completion of our initial fact-finding session with the client; however, advance payment will never exceed \$1,200 for work that will not be completed within six months from the date of the advisory agreement. The balance of any fee is due upon completion of the plan.

### **Consulting Services Fees**

Consulting Services fees are determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client. Although the length of time it will take to provide a financial plan will depend on each client's personal situation, we will provide an estimate for the total hours at the start of the advisory relationship.

For services based upon an hourly fee arrangement, the hourly rate may range from \$75 and \$250 per hour. Although the length of time it will take to provide a financial plan will depend on each client's personal situation, we will provide an estimate for the total hours at the start of the advisory relationship.

For services based on a fixed fee basis, fees typically range from \$250 to \$5,000, depending on the scope of services to be provided and the specific arrangement agreed upon with the client.

We may request a retainer of 50% of the estimated or agreed upon fee at the time of completion of our initial fact-finding session with the client; however, advance payment will never exceed \$1,200 for work that will not be completed within six months from the date of the advisory agreement. The balance of any fee is due upon completion of the plan.

## **General Information**

### Termination of the Advisory Relationship

A client agreement may be canceled at any time, by either party for any reason, upon written notice. Upon termination of an account, any prepaid, unearned fees will be refunded.

### Mutual Fund Fees

All fees paid to FMS for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs to their shareholders. These fees and expenses are described in each fund's prospectus and will generally include both a management fee and fees for other fund expenses. When purchasing mutual funds for clients, FMS firm policy is that the purchase is to be made in the lowest cost share class made available by the fund to advisory account shareholders. In addition, FMS continually monitors share class availability and works to convert holdings to lower cost fund share classes in a timely manner as these new classes become available. If the lowest cost share class available includes any 12b-1 distribution fees, those fees are credited to the client's account. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate based upon the client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

### Additional Fees and Expenses

In addition to our advisory fees, clients may also be responsible for the fees and expenses charged by custodians and broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer when we make transactions for a client's account(s). Please refer to the "Brokerage Practices" section (Item 12) of this Disclosure Brochure for additional information.

### ERISA Accounts

We are deemed to be a fiduciary to advisory clients that are employee benefit plans or hold retirement accounts under the Employee Retirement Income and Securities Act ("ERISA"), and regulations under the Internal Revenue Code of 1986 (the "Code"), respectively. As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include, among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, we may only charge fees for investment advice on products where our firm and/or our related persons do not receive any commissions or servicing fees from any mutual fund. Consistent with firm policy, share purchases are to be made in the lowest share class made available by the fund to advisory account shareholders. In addition, FMS continually monitors share class availability and works to convert holdings to lower cost fund share classes in a timely manner as these new classes become available. If the lowest share class available includes any 12b-1 distribution fees, those fees are credited to the client's account. For employer sponsored pension, profit-sharing, 403(b), and 401(k) plans, any 12b-1 fund distribution fees or servicing fees received from any mutual fund are used to reduce plan expenses and/or offset our advisory fee. These credits, if applicable, will be shown on the account statement.

### Advisory Fees in General

Clients should note that similar advisory services may (or may not) be available from other

registered (or unregistered) investment advisers for similar or lower fees.

#### Limited Prepayment of Fees

Under no circumstances do we require or solicit advance payment of fees in excess of \$1,200 for work that will not be completed within six months from the date of any advisory agreement.

### **ITEM 6 PERFORMANCE-BASED FEES**

Financial Management Strategies, Inc. does not charge performance-based fees.

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

Financial Management Strategies, Inc. provides advisory services to the following types of clients:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Trusts and Estates
- Charitable Organizations
- Corporations or other businesses not listed above
- Pension and profit sharing plans
- VEBA Trusts

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

#### **Methods of Analysis**

We may use the following methods of analysis in formulating our investment advice and/or managing client assets:

- *Charting.* In this type of technical analysis, we review charts of market and security activity in an attempt to identify when the market is moving up or down and to predict how long the trend may last and when that trend might reverse.
- *Fundamental Analysis.* We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell). Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.
- *Technical Analysis.* We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement. Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement.
- *Cyclical Analysis.* In this type of technical analysis, we measure the movements of a

particular stock against the overall market in an attempt to predict the price movement of the security.

- *Quantitative Analysis.* We use mathematical models in an attempt to obtain more accurate measurements of a company's quantifiable data, such as the value of a share price or earnings per share, and predict changes to that data. A risk in using quantitative analysis is that the models used may be based on assumptions that prove to be incorrect.
- *Qualitative Analysis.* We subjectively evaluate non-quantifiable factors such as quality of management, labor relations, and strength of research and development factors not readily subject to measurement, and predict changes to share price based on that data. A risk in using qualitative analysis is that our subjective judgment may prove incorrect.
- *Asset Allocation.* Rather than focusing primarily on securities selection, we attempt to identify an appropriate ratio of securities, fixed income, and cash suitable to the client's investment goals and risk tolerance. A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals.
- *Mutual Fund and/or ETF Analysis.* We look at the experience and track record of the manager of the mutual fund or ETF in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We also look at the underlying assets in a mutual fund or ETF in an attempt to determine if there is significant overlap in the underlying investments held in another fund(s) in the client's portfolio. We also monitor the funds or ETFs in an attempt to determine if they are continuing to follow their stated investment strategy. A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the holding(s) less suitable for the client's portfolio.
- *Risks for All Forms of Analysis.* Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

## **Investment Strategies**

We use the following strategy(ies) in managing client accounts, provided that such strategy(ies) are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

### Long-Term Purchases

We purchase securities with the idea of holding them in the client's account for a year or longer.

Typically we employ this strategy when:

- we believe the securities to be currently undervalued, and/or
- we want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantage of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

### Short-Term Purchases

When utilizing this strategy, we purchase securities with the idea of selling them within a relatively short time, typically a year or less. We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase. A short-term purchase strategy poses risks should the anticipated price swing not materialize. We are then left with the option of having a long-term investment in a security that was designed to be a short-term purchase or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

### Option Writing

We may use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from an underlying asset.

The two types of options are calls and puts:

- A call gives the holder the right to buy an asset at a certain price within a specific period of time. We will buy a call if we have determined that the stock will increase substantially before the option expires.
- A put gives the holder the right to sell an asset at a certain price within a specific period of time. We will buy a put if we have determined that the price of the stock will fall before the option expires.

We may use options to speculate on the possibility of a sharp price swing. We will also use options to "hedge" a purchase of the underlying security; in other words, we will use an option purchase to limit the potential upside and downside of a security we have purchased for your portfolio.

We may use "covered calls", in which we sell an option on security you own. In this strategy, you receive a fee for making the option available, and the person purchasing the option has the right to buy the security from you at an agreed-upon price.

We may use a "spreading strategy", in which we purchase two or more option contracts (for example, a call option that you buy and a call option that you sell) for the same underlying security. This effectively puts you on both sides of the market, but with the ability to vary price, time and other factors.

## **ITEM 9 DISCIPLINARY INFORMATION**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

FMS self-reported to the SEC under the Share Class Selection Disclosure Initiative (SCSD) that the firm may not have adequately disclosed the conflicts of interest relating to the receipt by the firm's associated persons of mutual fund 12b-1 servicing fees and the selection of mutual fund share classes that pay such fees. Without admitting or denying the findings contained in the order, FMS consented to the entry of an Order regarding this matter. Details of the findings and the Order may be found at <https://www.sec.gov/litigation/admin/2019/ia-5144.pdf>.

Our firm and our management personnel have no other reportable disciplinary events to disclose.

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

Management personnel and certain investment adviser representatives of FMS may be separately licensed as registered representatives of Cetera Advisor Networks, LLC (Cetera), a registered broker-dealer, a member firm of FINRA, SIPC, and an SEC registered investment adviser. These individuals, in their separate capacity, can effect securities transactions for which they will receive separate, yet customary commission based compensation.

While FMS and these individuals endeavor at all times to put the interest of the clients first as part of our fiduciary duty, clients should be aware that the receipt of additional compensation itself creates a conflict of interest, and may affect the judgment of these individuals when making recommendations.

Investment adviser representatives (IAR) associated with our firm may be separately licensed as an IAR of Cetera. In that capacity, this individual can provide advisory services through Cetera. The advisory services delivered by Cetera are distinct from those provided by our firm and those services are provided for separate compensation. Cetera's advisory services may be recommended to our clients for whom it is appropriate. There are no referral fee arrangements between our firm and Cetera. However, a conflict of interest is created by this arrangement to the extent that this individual recommends that an FMS client open a Cetera account through which this individual will receive compensation. No FMS client is obligated to use Cetera for its advisory services. Clients choosing to implement recommendations through Cetera's advisory services should refer to Cetera's Firm Disclosure Brochure or other disclosure document for details regarding that firm's services and fees.

As this affiliation with Cetera may present potential conflicts of interest, we have established written policies and procedures for insider trading that prohibit any member, officer, IAR, or employee of our firm, from buying, selling or recommending the securities of companies bought, sold or recommended by Cetera where the decision is substantially derived, in whole or in part, by reason of access to the recommendations of Cetera to its clients.

Management personnel and certain investment adviser representatives of FMS may be licensed as agents either individually or through Plancorp, Inc., an insurance agency owned by management of FMS, with various insurance companies. As such, these individuals are able to receive separate, yet

customary commission compensation resulting from implementing product transactions on behalf of advisory clients. Clients, however, are not under any obligation to engage these individuals when considering implementation of advisory recommendations. The implementation of any or all recommendations is solely at the discretion of the client.

Clients should be aware that the receipt of additional compensation by FMS and its management persons or employees creates a conflict of interest that may impair the objectivity of our firm and these individuals when making advisory recommendations. FMS endeavors at all times to put the interest of its clients first as part of our fiduciary duty as a registered investment adviser. We take the following steps to address this conflict:

- we disclose to clients the existence of all material conflicts of interest, including the potential for our firm and our employees to earn compensation from advisory clients in addition to our firm's advisory fees;
- we disclose to clients that they are not obligated to purchase recommended investment products from our employees or affiliated companies;
- we collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
- our firm's management conducts regular reviews of each client account to verify that all recommendations made to a client are suitable to the client's needs and circumstances;
- we require that our employees seek prior approval of any outside employment activity so that we may ensure that any conflicts of interests in such activities are properly addressed;
- we periodically monitor these outside employment activities to verify that any conflicts of interest continue to be properly addressed by our firm; and
- we educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

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

Our firm has adopted a Compliance Policies and Procedures Manual/Code of Ethics ("Manual/Code") which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

FMS and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Manual/Code but to the general principles that guide the Manual/Code.

Our Manual/Code includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Manual/Code also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our Manual/Code also provides for oversight, enforcement and recordkeeping provisions.

FMS's Manual/Code further includes the firm's policy prohibiting the use of material non-public information.

A copy of our Manual/Code is available to our advisory clients and prospective clients. You may request a copy by writing to Financial Management Strategies, Inc., Attn: Compliance Officer, 9050 Sweet Valley Drive, Valley View, OH 44125, by email to [jsoltis@vanfin.com](mailto:jsoltis@vanfin.com), or by calling us at 216-642-7878.

FMS and individuals associated with our firm are prohibited from engaging in principal transactions.

FMS and individuals associated with our firm are prohibited from engaging in agency cross transactions.

Our Manual/Code is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and/or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client.

It is the express policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account, thereby preventing such employee(s) from benefiting from transactions placed on behalf of advisory accounts.

In the “Advisory One” investment management platform, transaction related charges for purchases, sales, and/or exchanges are paid by the Investment Adviser. This may create a conflict as client’s investment management fee could be higher than the fee client would pay under the “Advisory Plus” platform where transactional related charges are paid by the client. In addition, trading within the account could be limited to minimize any such transaction related charges that are paid by the Investment Adviser.

As these situations represent actual or potential conflicts of interest to our clients, we have established the following policies and procedures for implementing our firm’s Manual/Code, to ensure our firm complies with its regulatory obligations and provides our clients and potential clients with full and fair disclosure of such conflicts of interest:

1. No principal or employee of our firm may put his or her own interest above the interest of an advisory client.
2. No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is a result of information received as a result of his or her employment unless the information is also available to the investing public.
3. It is the express policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account. This prevents

such employees from benefiting from transactions placed on behalf of advisory accounts.

4. Our firm requires prior approval for any IPO or private placement investments by related persons of the firm.
5. We maintain a list of all reportable securities holdings for our firm and anyone associated with this advisory practice that has access to advisory recommendations ("access person"). These holdings are reviewed on a regular basis by our firm's Chief Compliance Officer or his/her designee.
6. We have established procedures for the maintenance of all required books and records.
7. Clients can decline to implement any advice rendered, except in situations where our firm is granted discretionary authority.
8. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
9. We require delivery and acknowledgement of the Code of Ethics by each supervised person of our firm.
10. We have established policies requiring the reporting of Code of Ethics violations to our senior management.
11. Any individual who violates any of the above restrictions may be subject to termination.

As disclosed in the preceding section of this Disclosure Brochure (Item 10), related persons of our firm may be separately registered as Registered Representatives or IARs of Cetera Advisor Networks, LLC, a registered broker-dealer, member of FINRA, SIPC, and an SEC registered investment adviser; and may be licensed as insurance agents or brokers with various insurance companies. Please refer to Item 10 for a detailed explanation of these relationships and important conflict of interest disclosures.

## **ITEM 12    BROKERAGE PRACTICES**

FMS does not have any soft-dollar arrangements and does not receive any soft-dollar benefits.

FMS requires that clients open accounts with custodians who have an established relationship with FMS. We disclose all commission costs that will be charged to our clients for brokerage related transactions.

Clients must grant any discretionary authority for an account in writing and may include any limitations on such discretionary authority. Clients may change/amend these limitations as desired or required. Such changes must be provided to us in writing.

As a general rule, FMS does not generally block client individual securities' trades and, therefore, we implement client transactions separately for each account. Consequently, certain client trades may be executed before others, at a different price and/or commission rate. Additionally, our clients may not receive volume discounts available to advisers who block client trades. At times, however, we may aggregate client transactions. In these instances, participating clients will receive the average share price for the trade. Transaction related fees are charged separately to each Client account. For "Advisory Plus" platform accounts, any transaction fee is charged to the Client. For

“Advisory One” platform accounts, any transaction fee is paid by the IAR. In the instances where there is a partial fill of a particular batched order, we will allocate all purchases pro-rata, with each account paying the average price.

For clients in the FMS Model Portfolio Management program, FMS may at times block client individual securities’ trades. In such cases, we aggregate client transactions to seek best execution for trades being made. Clients will receive an average share price and transaction costs will be shared equally and on a pro-rata basis.

## **ITEM 13      REVIEW OF ACCOUNTS**

### **Portfolio Management and Model Portfolio Management**

#### Reviews

Client’s investment adviser representative will review on at least an annual basis the client's portfolio holdings, confirm that the account’s risk is consistent with client’s investment objective, discuss any restrictions or limitations for the account, and determine whether any changes to the account are required.

#### Reports

Client accounts will receive reports as contracted for at the inception of the advisory relationship.

### **Pension Consulting Services**

#### Reviews

We will review the client's Investment Policy Statement (IPS) whenever the client advises us of a change in circumstances regarding the objectives for a plan. We will also review the investment options of the plan according to the agreed upon time intervals established in the plan’s Investment Policy Statement. Investment option reviews will generally occur quarterly.

These accounts are reviewed by: Charles B. Elliott, Vice-President and Director of Financial Planning and Portfolio Management and/or Jeffrey C. Knox, President.

#### Reports

Client accounts will receive reports as contracted for at the inception of the advisory relationship.

### **Financial Planning Services**

#### Reviews

While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Financial Planning clients unless otherwise contracted for in the planning agreement. Where reviews are done, they will be conducted by the client’s assigned adviser representative.

#### Reports

Financial Planning clients will receive a completed financial plan. Additional reports will not typically be provided unless otherwise contracted for in the planning agreement.

## **Consulting Services**

### Reviews

While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Consulting Services clients unless otherwise contracted for in the consulting agreement. Such reviews will be conducted by the client's adviser representative.

### Reports

These client accounts will receive reports as contracted for at the inception of the advisory engagement.

## **ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION**

### **Client Referrals**

Our firm may pay referral fees to independent persons or firms ("Solicitors") for introducing clients to us. Whenever we pay a referral fee, we require the Solicitor to provide the prospective client with a copy of this document (our Firm Brochure) and a separate disclosure statement that includes the following information:

- the Solicitor's name and relationship with our firm;
- the fact that the Solicitor is being paid a referral fee;
- the amount of the fee; and
- whether the fee paid to us by the client will be increased above our normal fees in order to compensate the Solicitor.

As a matter of firm practice, the advisory fees paid to us by clients referred by solicitors are not increased as a result of any referral.

It is company policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

## **ITEM 15 CUSTODY**

Our firm does not have actual or constructive custody of client accounts.

We previously disclosed in the "Fees and Compensation" section (Item 5) of this Brochure that our firm directly debits advisory fees from individual client custodial accounts. On at least a quarterly basis, the custodian sends client an account statement showing all transactions, including fees charged, within the account during the reporting period. Clients should contact us directly if they believe that there may be an error in their fee calculation or statement.

For retirement plans where participants have individual accounts, we advise the client's custodian of the amount of the fee that is to be deducted on a pro-rata basis from each participant's account. Notice of the fee is sent to client. In accordance with Department of Labor regulations, any fee charged to a participant's account is disclosed on the participant's quarterly statement. Clients

should contact us directly if they believe there may be an error in their fee calculation or statement.

## **ITEM 16 INVESTMENT DISCRETION**

For individual and model portfolio investment management Clients, FMS may provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission. We do, however, inform clients that changes are being made to their accounts either electronically, with authorization from the client, or by mail. Discretionary authority may not be granted for any individual account subject to the provisions of ERISA, which includes pension and profit-sharing plans, Simplified Employee Pensions (SEP), and SIMPLE-IRAs. Our discretionary authority includes the ability to do the following without contacting the client:

- determine the security to buy or sell; and/or
- determine the amount of the security to buy or sell

Clients provide discretionary authority when they sign their investment management agreement with our firm and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions.

For FMS Managed Retirement Plan clients and for the investment management of the FMS Managed Retirement Portfolios offered as investment options to retirement plan participants, FMS has discretionary authority for these services under the guidelines of ERISA Section 3(38), as described in Item 4.

## **ITEM 17 VOTING CLIENT SECURITIES**

As a matter of firm policy, we do not vote proxies on behalf of clients. Therefore, although our firm may provide investment advisory services relative to a client's investment assets, clients maintain exclusive responsibility for (1) directing the manner in which proxies solicited by issuers of securities beneficially 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. Clients are responsible for instructing each custodian of the assets, to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets.

We do not offer any consulting assistance regarding proxy issues to clients.

## **ITEM 18 FINANCIAL INFORMATION**

As an investment advisory firm, we are required to disclose any financial condition that is reasonably likely to impair our ability to meet our contractual obligations. FMS has no financial circumstances to report. FMS has never been the subject of a bankruptcy petition.

Under no circumstances do we require or solicit payment from a client of fees in excess of \$1,200 for work that will not be performed within six months from the date of any advisory agreement. Accordingly, we are not required to include a financial statement.