

# Part 2A of Form ADV

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## Firm Brochure

**2019**

This brochure provides information about the qualifications and business practices of M.J. Smith and Associates. If you have any questions about the contents of this brochure, please contact us at 303-768-0007. Our address is 5613 DTC Parkway, ste 650, Greenwood Village, CO 80111. Our website address is [www.mj-smith.com](http://www.mj-smith.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 M.J. Smith and Associates is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

Since the last annual update of our firm's Form ADV Brochure, which occurred in January of 2018, the following material changes have occurred:

- There are no material changes since the last annual update.

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## Advisory Business

### Firm Establishment

M.J. Smith and Associates (MJS) has been providing wealth management consulting services to clients since its establishment in 1983.

### Principal

The principal owner and founder of the firm is Mark J. Smith, CFP®, CPA/PFS, CIMA®.

### *Degrees/Designations*

Mark J. Smith, CFP®, CPA/PFS, CIMA®

**CFP®:** Received the CERTIFIED FINANCIAL PLANNER™ practitioner designation in 1983

**CPA:** Received the Certified Public Accountant designation offered by the American Institute of Certified Public Accountants (AICPA) in 1976

**PFS:** Received the Personal Financial Specialist designation offered by the AICPA in 1996

**CIMA®:** Received the Certified Investment Management Analyst designation in 1990 by attending post-graduate studies at the Wharton School of Business, University of Pennsylvania

**BBA:** Graduated with a Bachelor of Business Administration degree from the University of Iowa with a major in accounting in 1976

**AA:** Graduated with an Associate of Arts degree from Iowa Central Community College in 1974

### Types of Advisory Services Offered

#### **Concierge Service Offering:**

M.J. Smith and Associates (MJS) provides consulting services to clients in the areas of asset allocation/portfolio evaluation, investment selection, income tax planning, estate planning, risk management, and retirement planning.

MJS can engage a client in tax planning and estate planning discussions, although the firm does not prepare tax returns and does not draft estate plan documents. The firm can work in concert with tax accountants and estate attorneys to assist the client in determining the most proper plan in regards to their income taxes and various estate planning concerns.

For asset allocation and investment selection, MJS treats each client relationship as separate and unique. Portfolio allocations of stocks, bonds, cash, and other types of investments are determined on a client-by-client basis, based on discussions with each client as to their tolerance for risk. Investment selection is also customized in an attempt to utilize investments that may offer more tax-efficiency (municipal bonds or exchange-traded funds, for example) for non-retirement accounts, depending on the client's current income tax situation.

MJS provides ongoing monitoring and standard reporting on each client's investment portfolio. In addition, MJS can provide additional reporting and financial plan maintenance services under our

*Retainer Service.* MJS will prepare comprehensive summary/performance reports for all assets that MJS is helping to track. Additionally, MJS will schedule an annual financial planning meeting to review the client's overall situation and update portions of the financial plan, as required. In addition to reviewing portfolio composition and performance, these meetings typically include tax planning, retirement planning, risk management and/or estate planning advice and consultation.

If requested by the client, we will incorporate assets held outside of our firm into the comprehensive financial planning process. Examples of these types of assets could be, but are not limited to, 401(k), 403(b), and 529 accounts. If requested to provide this service, the value of the outside account will be added to the client's total for billable assets. Please note, we will not execute any trades in these types of accounts, trading in these accounts will be the responsibility of the client.

**WealthPath service offering:** Services under this program are provided for accounts with a minimum value of \$100,000 and clients in this program will have a lower fee schedule due to the limited scope of services compared to the MJS full service offering.

WealthPath will offer the following:

- [www.startmywealthpath.com](http://www.startmywealthpath.com)
- Access to our junior advisor team for all service related needs.
- An annual account review via phone or web conference with a member of our junior advisor team.
- Two dimensional risk tolerance evaluation tool Tolerisk.
- Establishment of an Investment Policy Statement using the results of the Tolerisk survey.
- Initial setup and ongoing guidance on the use of the Goal Planning and Monitoring system which allows for the establishment of retirement projections. Clients can adjust these inputs as needed based on life changes and discuss the impact with a member of our junior advisor team during their annual account review call.
- Full access to all Raymond James tools available to clients including the Vault for secure document storage, electronic check deposit, electronic signature of documents.

This offering will have reduced advisor contact when compared to the full service offering and MJS will not provide full comprehensive planning services to clients in this service model. Should clients require full comprehensive planning they can move to the MJS Concierge Service model. Clients will complete a Tolerisk survey through the MJS website, results will then be reviewed by MJS and discussed with the client to determine which investment allocations are suitable to the client based upon the client's risk tolerance.

### Assets Under Management

M.J. Smith and Associates, as of 12/31/18, manages assets for our clients totaling \$661,699,843. Below is a breakdown of this total by assets managed on a discretionary and non-discretionary basis. All assets managed by the M.J. Smith and Associates Registered Investment Advisor (RIA) are discretionary.

Discretionary Assets Managed:	<u>\$649,192,660</u>
Non-Discretionary Assets Managed:	<u>\$12,507,183</u>
TOTAL:	\$661,699,843

## Fees and Compensation

### Consulting Services

As mentioned previously, M.J. Smith and Associates (MJS) provides consulting services to clients in the areas of: asset allocation/portfolio evaluation, income tax planning, estate planning, risk management, and retirement planning. These services are provided primarily on a flat-fee basis for new client relationships. The typical fee for a new client engagement is \$3,000; however, this fee can range from \$1,000 to \$5,000, depending upon the scope and complexity of the work to be performed. Services are no longer available on an hourly basis. As the wealthpath service model does not offer the same level of comprehensive planning that is offered at the Concierge Level, there is no consulting service offering for wealthpath clients.

As mentioned above, a flat fee is generally charged for consulting services provided to a new client. This fee will be quoted to new clients in the form of an engagement letter to be executed by MJS and the client prior to the start of the engagement. An invoice for this fee will be sent at the end of the initial planning engagement (the initial planning engagement typically includes three-to-five meetings spanning several weeks). If the agreement is terminated, any earned portion of the fee, based upon the advisor's estimate of completed services, is due at the time of notice of termination.

**Retainer Service:** In addition to the ongoing monitoring provided on each investment portfolio, MJS can provide additional reporting and financial plan maintenance services under our *Retainer Service*. For an annual fee of \$1000, MJS will prepare quarterly comprehensive summary/performance reports for all assets that MJS is helping to track. Additionally, MJS will schedule an annual financial planning meeting to review the client's overall situation and update portions of the financial plan, as required. In addition to reviewing portfolio composition and performance, these meetings typically include tax planning, retirement planning, risk management and/or estate planning discussions and service. This retainer fee is waived for clients whose billable assets under our management are greater than \$1 million or on a case by case basis per management discretion.

**Other Services:** MJS will normally charge hourly fees (or a flat fee, if negotiated in advance) for services not discussed above, including work MJS provides in helping to close a client's estate upon death. The scope of these services and the billing procedures will be detailed in an engagement letter specific to that situation.

### Investment Management Services

**Concierge Service Commission Free and Exchange Traded Mutual Fund Program:** Services under this program are provided on an active basis for accounts with an appropriate minimum value, typically \$1,000,000. M.J. Smith and Associates will determine which investment allocations are suitable to the client based upon the client's risk tolerance. The annual fee payable to M.J. Smith and Associates is negotiable at the discretion of M.J. Smith and Associates. The annual fee structure payable to MJS is as follows. Related accounts under this no-load program are combined for aggregation purposes. This annual fee is calculated as a blended rate.

<u>Assets Managed</u>	<u>Annual Fee</u>
\$100,000 to \$1 million	1.00%
Next \$1 million - \$3 million	0.80%
Next \$3 million - \$6 million	0.70%
Next \$6 million - \$10 million	0.60%
Next \$10 million - \$25 million	0.50%
Next \$25 million - \$50 million	0.40%
Next \$50 million - \$100 million	0.30%
Next \$100 million - \$200 million	0.20%
Next \$200 million - \$300 million	0.10%
Above \$300 million	0.05%

We will accept relationships under \$1,000,000 in billable assets with a minimum of \$100,000 in billable assets required. For accounts that are within this range there are two fee schedule options:

- If the client requests comprehensive financial planning which includes, but is not limited to, the evaluation of their retirement goals, estate planning, tax planning needs as well as investment management, the minimum annual fee will be \$5,000

Clients who wish to participate in this program will grant MJS discretionary authority to trade in mutual funds and exchange traded funds: no-loads, wrap-fee based share classes, institutional share classes, and load-waived A share classes selected for the account. This discretionary authority is given upon the signing of the firm's *Asset Management Agreement*. Additionally, the implementation of the mutual fund purchases cannot be made until a signed *Asset Management Agreement* is received for each account.

The purchase and reallocation of the mutual funds are processed through Raymond James & Associates ("RJA"), Member NYSE/SIPC, a corporate affiliate of Raymond James Financial Services (RJFS), that acts as the custodian of the assets. As compensation for providing this custodial relationship, RJFS retains approximately 5% of the above-referenced fee.

The initial fee is calculated from the implementation date (the date mutual fund purchases are completed) to the end of the current calendar quarter. Thereafter, the annual fees listed above are calculated on a quarterly basis and deducted from the client's RJFS account at the beginning of each quarter. Clients receive a statement each quarter showing the calculation of the fee amount. Positions in cash, individual stocks and bonds, and other investments that are deemed to not fall under our investment management services will not be billed for taxable accounts only.

**WealthPath Service Offering:** The annual fee payable to M.J. Smith and Associates for the WealthPath service offering is negotiable at the discretion of M.J. Smith and Associates. The annual fee structure payable to MJS is as follows. Related accounts under this program are combined for aggregation purposes. This annual fee is calculated as a blended rate.

<u>Assets Managed</u>	<u>Annual Fee</u>
\$100,000 to \$1 million	0.70%
Next \$1 million - \$3 million	0.55%
Next \$3 million - \$6 million	0.50%
Next \$6 million - \$10 million	0.40%
Over \$10 million	0.35%

Clients who wish to participate in this program will grant MJS discretionary authority to trade in mutual funds and exchange traded funds. The investments selected will be focused on index funds with minor exceptions where more active management types of mutual funds may be more suitable based on the discretion of MJS. In this instance, the mutual fund selection process will also attempt to use mutual funds with the lowest costs and minimal transaction charges whenever possible. This discretionary authority is given upon the signing of the firm's *Asset Management Agreement*. Additionally, the implementation of the mutual fund purchases cannot be made until a signed *Asset Management Agreement* is received for each account.

The purchase and reallocation of the exchange traded funds are processed through Raymond James & Associates ("RJA"), Member NYSE/SIPC, a corporate affiliate of Raymond James Financial Services (RJFS) that acts as the custodian of the assets. As compensation for providing this custodial relationship, RJFS charges our firm a quarterly maintenance fee for their services.

The initial fee is calculated from the implementation date (the date exchange traded fund purchases are completed) to the end of the current calendar quarter. Thereafter, the annual fees listed above are calculated on a quarterly basis and deducted from the client's RJFS account at the beginning of each quarter. Clients receive a statement each quarter showing the calculation of the fee amount. Positions in cash, individual stocks and bonds, and other investments that are deemed to not fall under our investment management services and are held in non-qualified accounts will not be billed. All positions, including cash balances will be billed upon in accordance with the Department of Labor rule requirements.

The quarterly fees will be deducted from available cash within the RJFS account, if there is an insufficient cash balance to cover the fees, trades will be placed to free up adequate cash to cover the fee.

If at any time a client wishes to terminate the services provided under the *Asset Management Agreement*, MJS will provide a pro-rata fee credit to the client's RJFS account for the "unearned" days remaining in the quarter.

RJFS, based on the size of the client relationship, may charge annual custodial fees for retirement accounts, and may charge annual fees for other types of accounts. Please refer to the *Brokerage Practices* section for further details on these costs.

Although it is more efficient to have the quarterly fees deducted from available cash within the RJFS account, clients do have the option to be invoiced for the fee, if it is desired to pay the fee from an outside source.

If at any time a client wishes to terminate the services provided under the *Asset Management Agreement*, MJS will provide a pro-rata fee credit to the client's RJFS account for the "unearned" days remaining in the quarter.

Mutual fund (on the buy-side only) transactions may incur a \$15 flat processing fee. This fee will be \$40 if the purchases are made in non-partner fund families within retirement accounts. Those fund families are: Colorado Bondholder, DFA, Dodge & Cox, Fairholme, Firsthand, Heartland I & II, Longleaf Partners, MPAM, Oak Funds and Vanguard. There is a \$15 fee for trading individual bonds. Individual stock, including closed-end and exchange traded fund transactions, will incur a \$15 fee charged by Raymond James Financial Services. MJS does not receive any portion of this processing fee. Select mutual fund companies have agreed to pay administrative fees to RJFS in consideration for RJFS's waiver of the \$15 processing fee. For a list of these select mutual fund companies, please contact our office.

In addition to the fee schedule listed above, clients will be subject to the annual operating expenses of the mutual funds themselves, which can range from about 0.015% for low-cost funds to about 1.22% for aggressive equity or international funds. Detailed information on mutual fund expenses is contained in the prospectus for each fund, which is delivered to clients.

For load-waived A share funds, or other share classes, that charge an annual 12b-1 fee (typically 0.25%), this fee is credited back to client's RJFS accounts on a quarterly basis. The existence of a 12b-1 fee is disclosed in the mutual fund prospectus.

RJFS, based on the size of the client relationship, may charge annual custodial fees for retirement accounts, and may charge annual fees for other types of accounts. Please refer to the *Brokerage Practices* section for further details on these costs.

**C-Share Mutual Fund Program:** This program is not offered to new clients, as of the date of this report services under this program are provided to a small number of clients that are currently in this program. M.J. Smith and Associates determined which investment allocations are suitable to the client based upon the client's desired rate of return and risk tolerance.

For this program, MJS utilizes C-share class mutual funds. These are available without an up-front or back-end sales charge.

Annual compensation to MJS amounts to a fraction of 1% (typically in the 0.45% to 0.90% range) of the value of each C share fund and is derived from the 12b-1 fee portion of the mutual fund's operating expenses. Since this compensation to MJS comes directly from the mutual fund's expenses, it is not negotiable. Raymond James Financial Services, as with the *Commission Free Mutual Fund and Exchange Traded Fund Program*, retains 10% of the total compensation. All trades are subject to a \$5.95 handling fee, plus transaction fees (\$15 or \$45) for purchases.

In addition to the 12b-1 expense, clients will be subject to the annual operating expenses of the mutual funds themselves, which can range from about 0.30% for bond funds to about 1.25% for aggressive

equity funds. Detailed information on mutual fund expenses is contained in the prospectus for each fund, which is delivered to clients concurrent with investment recommendations.

Additionally, as with the *Commission Free Mutual Fund and Exchange Traded Fund Program*, RJFS, based on the size of the client relationship, may charge annual custodial fees for retirement accounts, and may charge annual fees for other types of accounts. Please refer to the *Brokerage* section for further details on these costs.

Under this program, if individual stocks or bonds are purchased or sold, these transactions are subject to RJFS's standard commission schedules.

Net Amount of Principal	% of Funds	Fixed Amount
\$0 -4,999.99	3	\$5
\$5,000 – 19,999.99	2	\$55
\$20,000 – 49,999	1	\$255
\$50,000 and above	0.8	\$355

Since MJS does not provide advice, nor does it recommend, buying and selling individual stocks and bonds, every attempt is made to minimize, or completely eliminate, any commissions received by MJS by offering commission discounts.

**Separately Managed Accounts:** Although rarely recommended, as of the date of this report, M.J. Smith and Associates has access to separately managed accounts through its affiliation with Raymond James Financial Services.

Separate money management firms manage these accounts on a discretionary basis and the client owns the individual stocks and bonds in a brokerage account with RJFS. Total annual fees for these types of accounts range from 1.5% to 3.0%, which includes compensation to the manager (usually 1% or less), compensation to RJFS (typically 0.25% to 0.50%) and compensation to MJS (typically .4% to 1.2%). MJS will commonly reduce its portion of the fee so that total fees are no greater than 2.5%. These fees are all inclusive, meaning there will not be any commissions charged for trades, nor any entry or exit fees.

**Insurance & Annuity Products:** MJS can also provide insurance (disability, long-term care, and life) and annuity products to its clients through Raymond James Insurance Group (the insurance affiliate of RJFS) or via its relationship with other insurance providers. MJS will usually be compensated in the form of commissions, where typically the lowest up-front commission with the highest annual trail option is chosen, if available.

## Performance-Based Fees and Side-by-Side Management

M.J. Smith and Associates does not charge performance-based fees.

## Types of Clients

M.J. Smith and Associates provides investment advice to several different types of clients, including individuals, families, charitable foundations, trusts, and retirement plans consisting of both defined benefit (pension) and defined contribution (401k/profit sharing) plans.

MJS' current minimum relationship size is \$1,000,000 of investable assets for the concierge level service and \$100,000 for the wealthpath service offering. Exceptions to this minimum size are allowed but must receive the approval of the owner of the firm.

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

**Methods of Analysis:** As market conditions change over time, this will cause a client's portfolio to vary in established asset classes from the recommended, or targeted, allocation ranges. To remain consistent with the asset allocation guidelines established by the client's investment policy statement, MJS will, no less frequently than once a year, review a client's portfolio and each asset class in which the portfolio is invested. If the actual weighting differs from the target weighting by 5% or more (e.g., from a recommended 10% to less than 5% or more than 15% of total assets), MJS recommends that the client rebalance the portfolio. Moves to rebalance are only made upon a communication between MJS and the client. Additionally, our model portfolios rebalance in January of each year and is done automatically. Although our firm does not believe in allowing tax liabilities to alter prudent rebalancing, we will fully disclose the tax ramifications of any moves within our client's portfolios, so that proper tax planning can be completed.

We take a very active approach to monitoring the investments (mostly mutual funds and exchange traded funds) within our client's portfolios. We hold an *Investment Committee* meeting every month to assess the performance of our client's mutual fund, separately managed account, and variable annuity sub-account holdings. MJS analyzes past performance of each holding versus respective categories and indices, monitors portfolio manager changes, and analyzes risk/return statistical measures such as beta, alpha, and standard deviation, among others. Our firm does not believe in firing a manager due to short-term underperformance. If underperformance continues and begins to affect longer-term performance (trailing 3 years, for example), we will undertake due diligence on the particular investment to determine what factors are causing weak performance. Only after this due diligence will MJS recommend replacing an investment manager.

**Investment Strategies:** Our philosophy regarding portfolio diversification has been steadfast over the years. Once we have determined for a client the proper cash, bonds, and global stock mix, we will dissect the allocations further to make sure that each major asset class has the proper diversity. Regarding bonds, we typically look for a 60% exposure to high quality investments, such as AAA-rated corporate, agency, and government bonds. The remaining allocation is exposed to higher-yielding (junk) corporate bonds, foreign bonds, and treasury inflation protected securities (TIPS). For the equity portion of the portfolio, we typically allocate 60% to U.S. stocks, 25% to international stocks, and 15% to tangibles/alternatives, which includes commercial REITs, natural resources, commodities, and inflation-hedged investments. To further diversify across the markets, we typically allocate a percentage of US and international stocks to small-to-mid capitalization companies. Additionally, for international equity, we will typically allocate up to 20% in emerging markets. For tangibles/alternatives, we typically split

among REITs, natural resources/commodities, and alternative investments. The overall goal is to not have any single investment make up more than 10% of the total portfolio.

Since MJS believes that an accurate prediction can never be made about which asset classes will outperform going forward, we take a disciplined approach by allocating to many different asset classes, and then using rebalancing to bring the portfolio back into alignment not only in terms of the mix among cash, bonds, and stocks, but also keeping the proper style balance between large cap and small cap stocks, growth versus value, etc.

**Risk of Loss:** Investing in the securities markets involves risk of loss that the client should be prepared to bear. Diversified portfolios, regardless of how many investments are utilized, will still fluctuate with corresponding volatility in the equity and bond markets. For the client that chooses to have a portfolio more heavily weighted in stock investments versus bond investments, he/she needs to be prepared for a potential drop in the value of the portfolio of more than 20% during extremely volatile market conditions.

There are special risks involved with global investing related to market and currency fluctuations, economic and political instability, and different financial accounting standards. Investing in small company stocks generally involves greater risks, and therefore, may not be appropriate for every investor. Due to their lower quality ratings and higher potential to default, high yield bonds are also not suitable for all investors. Investing in the natural resources sector involves special risks, including the potential adverse effects of state and federal regulation and also may not be suitable for all investors. Commodities trading is generally considered speculative because of the significant potential for investment loss. Among the factors that could affect the value of a fund's investments in commodities are cyclical economic conditions, sudden political events, and adverse international monetary policies. Markets for precious metals and other commodities are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

All of these risks are considered and discussed when working with a client to define their overall risk tolerance and to assist in customizing a portfolio with the proper investments.

### Disciplinary Information

M.J. Smith and Associates has not been involved in any legal or disciplinary events.

### Other Financial Industry Activities and Affiliations

Investment adviser representatives of M.J. Smith and Associates are registered representatives of Raymond James Financial Services, Inc. (RJFS), member FINRA/SIPC, which is a wholly owned subsidiary of Raymond James Financial, Inc. RJFS clears its securities transactions on a fully disclosed basis through Raymond James & Associates, Inc. (member NYSE), which is also a wholly owned subsidiary of Raymond James Financial, Inc. Notwithstanding the fact that principals and associates of the adviser may be registered representatives of RJFS, the adviser is solely responsible for investment advice rendered. Advisory services are provided separately and independently of the broker/dealer.

Eagle Asset Management, Inc. is a corporation that acts as investment advisor to the Eagle Family of Mutual Funds sponsored by Raymond James & Associates, Inc. and is affiliated with RJFS. Should a client

purchase shares in any Eagle mutual fund, the advisor may receive 12b-1 fees (these are credited back to the client unless the client has a portfolio made up of C share mutual funds); however, these revenues are no greater than other mutual funds available. Additionally, MJS is under no obligation to recommend Eagle mutual funds. Based on these considerations, we feel there are no inherent conflicts of interest in MJS recommending Eagle mutual funds to its clients.

MJS will usually implement recommendations through its broker/dealer affiliation with RJFS at the fee or commission levels discussed in the 'Fees and Compensation' section above. Clients of MJS are under no obligation to purchase recommended investments from the consultants of MJS. However, most clients choose to implement recommendations through MJS and its affiliated broker/dealer, RJFS.

MJS will, at times, receive reimbursement from various financial service companies in conjunction with client events that the financial service companies sponsor. These events are designed to provide a certain level of interaction and education between clients and representatives from the companies that are involved with the management of their portfolios. These financial service companies offer mutual funds, variable annuities, or privately managed accounts that MJS has utilized as investments in our client's portfolios. These companies are asked to help reimburse MJS for costs associated, on occasion, for client appreciation events. The reimbursements that MJS received from financial services companies in 2018 was \$10,600. The companies providing these reimbursements were First Eagle (\$1,000), Invesco (\$1,000), Hartford (\$1,000), Thornburg (\$2,000), MFS (\$2,000), PIMCO (\$1,000), Prudential (\$1,000) and Fidelity (\$2,000).

As part of its fiduciary duties to clients, MJS endeavors at all times to put the interest of its clients first. Clients should be aware, however, that the receipt of economic benefits by MJS for these events in and of itself could create a potential conflict of interest.

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

**Personal Trading:** MJS consultants frequently recommend the same investments (mutual funds, annuities, exchange traded funds, etc.) that they own in their own accounts. It is against company procedures to recommend that a client buy or sell a specific security with consultants taking an opposite position.

Additionally, if a decision is made by the firm's Investment Committee that a mutual fund should be fired for reasons such as underperformance or a portfolio manager change, it is also against company procedures for MJS consultants to move their personal positions in the referenced fund before the clients are notified of our intentions.

**Code of Ethics:** Each employee of M. J. Smith and Associates shall always:

1. Serve in the best financial interests of our clients. All recommendations and decisions on behalf of our clients shall be solely in the best interest of our clients.
2. Disclose fully to our clients services provided and compensation alternatives and sources.
3. Provide our clients all requested information as well as other information needed to make informed investment decisions. Our client's inquiries shall be answered to the best of our abilities in a prompt and accurate fashion.

4. Maintain the confidentiality of all information entrusted by our clients, to the fullest extent permitted by law.
5. Comply fully with all statutory and regulatory requirements issued by federal and state regulatory bodies and compliance requirements of our affiliated broker/dealer, Raymond James Financial Services, Inc.
6. Act with integrity, dignity, and honesty, and maintain the highest standards of ethics in all forms of professional conduct.
7. MJS shall perform professional services in a manner that is fair and reasonable to clients and shall disclose conflicts of interest in providing such services.
8. Maintain knowledge through continuing education.
9. Personal securities holdings and transactions of all MJS' employees shall be monitored regularly to verify that employees' trading activity is not counter to our clients' best interests.

The above list is a summary of our firm's *Code of Ethics*. A copy of the more detailed *Code of Ethics* is available upon request.

## **Brokerage Practices**

M.J. Smith and Associates will almost always recommend that the implementation of any investment recommendation be completed through its affiliated broker/dealer, Raymond James Financial Services (RJFS). While RJFS may not be the lowest cost implementation option, MJS feels that, due to the services that RJFS provides to its clients and to MJS, this approach will result in the best service to the client. MJS can elect to change its broker/dealer affiliation at any time should it feel that RJFS is not providing an adequate level of service for the associated costs. Moreover, MJS feels that implementing all of its investment recommendations through a single source provides an efficiency advantage and, consequently, better service and reporting at a lower cost.

As mentioned in the *Fees and Compensation* section, RJFS retains approximately 5% of MJS's fee-based compensation. MJS feels this is a reasonable retention fee for the various services and reporting levels that RJFS provides, including, but not limited to: custodianship, annual tax reporting, monthly/quarterly brokerage statements, and internet access for clients.

RJFS charges an annual custodial fee (typically \$50) for IRA and Roth IRA accounts. Also, for cash management accounts where debit card and check-writing is made available, an annual fee of \$150 is charged. RJFS's current policy is that these fees are waived if the total client relationship is greater than \$100,000. Fees may exist for other types of accounts and services that RJFS provides – this specific information can be provided upon request.

MJS relies on RJFS, as the brokerage firm for client's securities', to provide best execution of individual stock and bond transactions. RJFS is not the least expensive in the industry, and does not have the highest broker/advisor payout in the industry; however, MJS believes that our clients receive very competitive pricing/bids for individual stock and bond trades. Best execution practices are reviewed on an on-going basis to determine if the firm's policy is implemented properly with regards to timely execution and commission discounts (based on time and work spent for a particular client's transaction request). This also includes looking at other resources (immediately prior to the transaction), such as real-time stock quotes from MSN and/or CNN-FN websites.

MJS, as a matter of policy and practice, does not utilize research, research-related products and other services obtained from broker-dealers, or third parties, on a soft dollar commission basis. Soft dollars generally refers to arrangements whereby a discretionary investment adviser is allowed to pay for and receive research, research-related or execution services from a broker-dealer or third-party provider, in addition to the execution of transactions, in exchange for the brokerage commissions from transactions for client accounts.

## Review of Accounts

Mark Smith (principal owner and founder), will review all investment advisory investment positions as often as necessary to take into consideration current and projected market changes utilizing fundamental and technical analysis. At a minimum, accounts will be reviewed once a year, but this is generally performed on a more regular basis. No particular sequence will be used and the matters reviewed will include: past performance, projected trends, current financial status and the estimated impact from the current and projected market changes. Quarterly portfolio level reviews, which include performance summary reports, are conducted for all advisory clients.

Additionally, all mutual funds, variable annuity sub-accounts, and separately managed accounts that our clients have positions in are reviewed regularly as part of our monthly Investment Committee. MJS analyzes past performance of each holding versus respective categories and indices, monitors portfolio manager changes, and analyzes risk/return statistical measures such as beta, alpha, and standard deviation, among others.

Monthly or quarterly (if no monthly activity) brokerage statements will be sent to each client (by RJFS) detailing current account balances and transactions.

Comprehensive annual written portfolio reviews are offered on an annual basis, or more frequently upon a client's request. These annual reviews are typically face-to-face meetings with an MJS investment advisor, and are also offered as web-based meetings or conference calls for those clients at a greater distance from our office. The annual review consists of an overview of the current markets, a summary of rates of return, a detailed analysis of the client's investment policy, and any recommendations to reposition the funds within the portfolio.

## Client Referrals and Other Compensation

M.J. Smith and Associates welcomes referrals from existing clients and professionals, such as accountants and lawyers. MJS does not provide any form of compensation to an individual or an entity that provides a referral.

## Custody

Raymond James & Associates provides custody of client's assets. M.J. Smith and Associates does not, under any circumstance, have custodial control of client assets. RJFS provides brokerage statements to

clients on a monthly or quarterly basis, as well as secured internet access for clients to review their accounts on-line.

As part of our reporting services, MJS provides written reports to clients on a quarterly basis. Although every attempt is made to deliver accurate reports, MJS urges clients to compare MJS reports with the RJFS statements for any reporting discrepancies.

### **Investment Discretion**

M.J. Smith and Associates does manage accounts under the *No-Load Mutual Fund Program* on a discretionary basis. Although MJS has discretionary authority, the firm communicates all fund purchases and liquidations to clients either orally or written before the transaction occurs. Often, for fund firings and to free up cash for fee deductions, this communication is completed using negative consent, whereby the client is provided with typically a two week notice before the referenced transaction takes place. For all other types of discretionary recommendations that involve fund transactions, MJS makes every effort to receive verbal approval from the client before implementation.

The consent of the client to allow discretionary authority by MJS and to also allow Raymond James Financial Services to deduct fees from the client accounts is authorized by the signing of the firm's *Asset Management Agreement*, which is required to be signed before transactions can be executed in the respective client accounts.

### **Voting Client Securities**

M.J. Smith and Associates, as a matter of policy and practice, has no authority to vote proxies on behalf of clients. The firm may offer assistance as to proxy matters upon a client's request, but the client always retains the proxy voting responsibility.

### **Financial Information**

M.J. Smith and Associates has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

M.J. Smith and Associates does not require the prepayment of fees for any amount six months or more in advance. Therefore, we are not required to include a financial statement in this brochure.