



## Form ADV Part 2A

### Item 1 – Title Page

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October 1, 2022

This brochure provides information about the qualifications and business practices of Davies Financial Advisors. If you have any questions about the contents of this brochure, please contact us at (951) 677-3960 or [andy@ajdavies.net](mailto:andy@ajdavies.net). 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 Davies Financial Advisors also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Davies Financial Advisors is a registered investment adviser. Registration as an investment adviser does not imply a certain level of skill or training.

## Item 2 – Material Changes

Davies Financial Advisors was registered as an investment adviser with the SEC on October 1, 2022. This brochure is the firm's initial filing, therefore there are no material changes to report.

You may request a copy of our current Brochure at any time, without charge, by calling us at (951) 677-3960 or emailing us at [andy@ajdavies.net](mailto:andy@ajdavies.net).

Additional information about Davies Financial Advisors is available via the SEC's Investment Adviser Public Disclosure website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website also provides information about any persons affiliated with Davies Financial Advisors who are registered, or are required to be registered, as Investment Adviser Representatives of Davies Financial Advisors.

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## Item 4 – Advisory Business

### **About Us**

Davies Financial Advisors is a registered investment adviser offering financial planning and asset management services to clients. Davies Financial Advisors has been in business since 2004, and its principal owner is Andrew J. Davies who began working in the financial services industry in 1999 as a registered representative. The firm was registered with the SEC as an investment adviser in 2022.

This brochure is designed to provide detailed and clear information relating to each item noted in the table of contents. Certain disclosures are repeated in one or more items, and/or other items are referred to to be as comprehensive as possible on the broad subject matters discussed. Within this brochure, certain terms in either upper- or lowercase are used as follows:

- “We,” “us,” and “our” refer to Davies Financial Advisors.
- “Advisor” refers to persons who provide investment recommendations or advice on behalf of Davies Financial Advisors.
- “You,” “yours,” and “client” refer to clients of Davies Financial Advisors and its advisors.

### **Description of Services Available**

Davies Financial Advisors offers to its clients a suite of investment advisory services and programs. Our investment advisory services and programs are designed to accommodate a wide range of client investment philosophies, goals, needs, and investment objectives. Through these various advisory programs and services, clients have access to a wide range of securities products, including, but not limited to, common and preferred stocks; municipal, corporate, and government fixed income securities; mutual funds; exchange-traded products (“ETPs”); options and derivatives; unit investment trusts (“UITs”); and variable and fixed-indexed insurance products, as well as other products and services, including a variety of asset allocation services, financial planning, and consulting services. We also offer advice related to direct participation programs, private placements, and other alternative investments, such as alternative energy programs, research and development programs, leasing programs, real estate programs, private equity funds, and pooled commodities futures programs.

Davies Financial Advisors offers the following programs:

### **Individual Financial Planning Services**

We provide analyses and advice to clients on matters related to finance and securities. Some clients are provided a written plan that may include a personal balance sheet and certain projections. Any reports, financial statement projections, and analyses are intended exclusively for your use in developing and implementing your financial plan. In view of this limited purpose, the statements should not be considered complete financial statements. Davies Financial Advisors will not audit, review, or compile financial statements, and accordingly, we will not express an opinion or other form of assurance on them, including the reasonableness of assumptions and other data on which any prospective financial statements are based. It is likely that there will be material differences between projected and actual results because events vary and circumstances frequently do not occur as expected.

Our analyses will be highly dependent on certain economic assumptions about the future. Therefore, you should establish familiarity with historical data regarding key assumptions such as inflation and investment rates of return, as well as an understanding of how significantly these assumptions affect the

results of our analyses. We may counsel you as to the consistency of your assumptions with relevant historical data, but we will not express any assurance as to the accuracy or reasonableness of your specific data and assumptions. You are ultimately responsible for the assumptions and personal data upon which our procedures and projections are based. The financial plan assumptions and reports are primarily a tool to alert you to certain possibilities. The reports are not intended to nor do they provide any guarantee about future events including your investment returns. If and where you choose to implement the financial plan we design for you is entirely up to you.

The financial plans provided for some of our clients do not address all potential aspects of financial planning. Typically, our plans address various combinations of investment planning, retirement planning, business owner planning, education funding, estate planning analysis, and risk management issues such as life, disability, and long-term care insurance. Property and casualty and other similar risk management issues are not always addressed, and you are encouraged to ask us about these issues.

Davies Financial Advisors does not manage client investment portfolios or provide investment supervisory services. We do not provide specific securities recommendations or facilitate any transactions on your behalf. We limit our securities recommendations to an asset allocation we believe suitable for your risk tolerance and objective needs.

### **Commonwealth Programs**

Davies Financial Advisors has entered into an agreement to offer clients access to certain programs offered by Commonwealth Financial Network (“Commonwealth”), an SEC-registered investment adviser. Specifically, Commonwealth’s Retirement Plan Consulting program, PPS Custom and PPS Select account programs are available to our clients.

#### **Retirement Plan Consulting**

The Retirement Plan Consulting program allows our advisors to provide a fee-for-service consulting program whereby advisors offer onetime or ongoing advisory services to qualified retirement plans. Clients may engage our advisors for Retirement Plan Consulting services on a negotiated hourly, flat, fixed, or asset-based fee basis. The maximum annual consulting fee, when stated as a percentage of assets, is 1.40% and is negotiable. Fees may be paid at the time of service, in advance of service, or after service has been rendered. If fees are being charged on an hourly basis, they may not exceed \$500 per hour. Through the Retirement Plan Consulting Program, advisors assist plan sponsors with their fiduciary duties and provide individualized advice based upon the needs of the plan and/or plan participants regarding investment management matters, such as:

- Investment policy statement support
- Investment selection and monitoring
- Overall portfolio composition
- Participant advice programs

#### **PPS Custom and PPS Select**

Our firm offers Commonwealth’s PPS Custom and PPS Select programs as noted above. Within the PPS Custom program, Davies Financial Advisors will assist clients in the development of personalized asset allocation programs. In the case of the PPS Select program, Davies Financial Advisors will assist clients in selecting a portfolio option appropriate for the client’s risk

tolerance, while portfolio management is provided by Commonwealth's Investment Management and Research team.

Clients who participate in one or more of Commonwealth's programs will receive Commonwealth's Form ADV Part 2 and/or Wrap Fee Brochure, in addition to Davies Financial Advisors' Form ADV Part 2. Clients should refer to Commonwealth's Form ADV Part 2 and/or Wrap Fee Brochure for detailed information about Commonwealth and Commonwealth's programs.

The specific advisory program selected by the client may cost the client more or less than purchasing program services separately. Factors that bear upon the cost of a particular advisory program in relation to the cost of the same services purchased separately include, but may not be limited to, the type and size of the account; the historical or expected size or number of trades for the account; the types of securities and strategies involved; the amount of fees, commissions, and other charges that apply at the account or transaction level; and the number and range of supplementary advisory and client-related services provided to the account. Lower fees for comparable services may be available from other sources.

Investment recommendations and advice offered by Davies Financial Advisors and its advisors do not constitute legal, tax, or accounting advice. Clients should coordinate and discuss the impact of the financial advice they receive from their advisor with their attorney and accountant. Clients should also inform their advisor promptly of any changes in their financial situation, investment goals, needs, or objectives. Failure to notify the advisor of any material changes could result in investment advice not meeting the changing needs of the client.

### **IRA Rollover Considerations**

As part of our financial planning and advisory services, we may provide you with recommendations and advice concerning your employer retirement plan or other qualified retirement account. When appropriate, we may recommend that you withdraw the assets from your employer's retirement plan or other qualified retirement account and roll the assets over to an individual retirement account ("IRA") to be managed by our firm or a Third-Party Manager that we recommend. If you elect to roll the assets to an IRA under our management, we will charge you an asset-based fee as described in Item 5. This practice presents a conflict of interest because our Advisory Representative has an incentive to recommend a rollover to you for the purpose of generating fee-based compensation rather than solely based on your needs. You are under no obligation, contractually or otherwise, to complete the rollover. Furthermore, if you do complete the rollover, you are under no obligation to have your IRA assets managed under our program or a Third-Party Managed Program. You have the right to decide whether to complete the rollover and the right to consult with other financial professionals.

Some employers permit former employees to keep their retirement assets in their company plan. Also, current employees can sometimes move assets out of their company plan before they retire or change jobs. In determining whether to complete the rollover to an IRA, and to the extent the following options are available, you should consider the costs and benefits of each.

An employee will typically have four options:

1. Leave the funds in your employer's (former employer's) plan.
2. Roll over the funds to a new employer's retirement plan.
3. Cash out and take a taxable distribution from the plan.
4. Roll the funds into an IRA rollover account.

Each of these options has advantages and disadvantages. Before making a change, we encourage you to speak with your financial advisor, CPA and/or tax attorney.

Before rolling over your retirement funds to an IRA for us to manage or to a Third-Party Managed Program, carefully consider the following. NOTE: This list is not exhaustive.

1. Determine whether the investment options in your employer's retirement plan address your needs or whether other types of investments are needed.
  - a. Employer retirement plans generally have a more limited investment menu than IRAs.
  - b. Employer retirement plans may have unique investment options not available to the public, such as employer securities or previously closed funds.
2. Your current plan may have lower fees than our fee and/or the Third-Party Manager's fee combined.
  - a. If you are interested in investing only in mutual funds, you should understand the cost structure of the share classes available in your employer's retirement plan and how the costs of those share classes compare with those available in an IRA.
  - b. You should understand the various products and services available through an IRA provider and their costs.
  - c. It is likely you will not be charged a management fee and will not receive ongoing asset management services unless you elect to have such services. If your plan offers management services, the fee associated with the service may be more or less than our fee.
3. Our management strategy may have higher risk than the options provided to you in your plan.
4. Your current plan may offer financial advice, guidance, management and/or portfolio options at no additional cost.
5. If you keep your assets titled in a 401(k) or retirement account, you could potentially delay your required minimum distribution beyond age 70.5 (70½).
6. Your 401(k) may offer more liability protection than a rollover IRA; each state varies. Generally, Federal law protects assets in qualified plans from creditors. Since 2005, IRA assets have been generally protected from creditors in bankruptcies; however, there can be exceptions. Consult an attorney if you are concerned about protecting your retirement plan assets from creditors.
7. You may be able to take out a loan on your 401(k), but not from an IRA.
8. IRA assets can be accessed any time; however, distributions are subject to ordinary income tax and may also be subject to a 10% early distribution penalty unless they qualify for an exception such as disability, higher education expenses or a home purchase.
9. If you own company stock in your plan, you may be able to liquidate those shares at a lower capital gains tax rate.
10. Your plan may allow you to hire us or another firm as the manager and keep the assets titled in the plan name.

It is important that you understand your options, their features and their differences, and decide whether a rollover is best for you. If you have questions, contact us at our main number listed on the cover page of this brochure.

#### **Department of Labor Prohibited Transaction Exemption 2020-02**

The Department of Labor has adopted a five-part test that defines when a firm or financial professional is acting as an investment advice fiduciary under Title I of the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code. Specially, an investment professional will be deemed to be an investment advice fiduciary when they render advice 1) to a plan, plan fiduciary, or IRA owner regarding

the value of securities or property or make recommendations; 2) on a regular basis; 3) pursuant to a mutual agreement or understanding; 4) that will serve a primary basis for an investment decision; and 5) that is individualized to the particular needs of a plan or IRA. Based on this five-part test, **Davies Financial Advisors acts as an ERISA investment advice fiduciary** to the extent the firm and its advisor(s) make a recommendation to move assets from a plan to another plan or IRA, from an IRA to another IRA or plan, or to change the type of account the Retirement Investor is currently invested (e.g., advisory to brokerage or vice versa).

To allow the receipt of compensation on this advice, the DOL issued Prohibited Transaction Exemption 2020-02 *Improving Investment Advice for Workers & Retirees* (PTE 2020-02). Davies Financial Advisors and our advisors can provide this advice on a variety of products or services, for compensation, provided the following conduct standards and conditions of this exemption are met:

### **1. Impartial Conduct Standards.**

Investment advice must be in the “best interest” of the retirement investor. This is defined as advice that reflects care, skill, prudence, and diligence based on investment objectives, risk tolerance, financial circumstances, and needs of the retirement investor. Further, our advisors owe a duty of loyalty to the retirement investor in that the investment advice cannot place the interests of the advisor or our firm ahead of the retirement investor.

### **2. Disclosure Requirements.**

The firm must provide retirement investors the following written disclosures and information prior to engaging in a covered transaction or recommendation:

- Acknowledgement of acting as an ERISA fiduciary in writing;
- Description of services provided and material conflicts of interest; and
- For rollover recommendations, the specific reasons for why the AP believes the rollover recommendation is in the best interest of the retirement investor including providing a detailed costs and services comparison between the current and proposed account.

This brochure provides information regarding material conflicts of interest and services offered. To the extent that we recommend, as part of our financial planning services, that you engage in a rollover transaction, you will receive a Rollover Recommendation Summary form. The Rollover Recommendation Summary form includes sections for your advisor to provide the rationale for why they believe the rollover recommendation is in your best interest, disclosures around services and costs, and evidence of form delivery.

### **3. Policies and Procedures.**

Davies Financial Advisors is required to establish, maintain, and enforce written policies and procedures for compliance with the conditions of PTE 2020-02. This includes complying with the Impartial Conduct Standards, providing required disclosures, and documenting and maintaining the specific reasons for rollover recommendations.

### **Individualized Services and Client-Imposed Restrictions**

The investment advisory services provided by our advisors depend largely on the personal information the client provides to the advisor. In order for our advisors to provide appropriate investment advice to, or, in the case of discretionary accounts, make tailored investment decisions for, the client, it is very important that clients provide accurate and complete responses to their advisor’s questions about their

financial condition, needs, goals, and objectives and notify the advisor of any reasonable restrictions they wish to apply to the securities or types of securities to be bought, sold, or held in their managed account. It is also important that clients promptly inform their advisor of any changes in their financial condition, investment objectives, personal circumstances, or reasonable investment restrictions pertaining to the management of their account, if any, that may affect their overall investment goals and strategies or the investment advice provided or investment decisions made by their advisor.

In general, the client's advisor is responsible for delivering investment advisory services to clients, and clients generally deal with matters relating to their accounts by contacting their advisor directly. Of course, clients may contact Davies Financial Advisors directly with questions about the advisory services offered by our firm.

### **Wrap Fee Programs**

Davies Financial Advisors does not offer wrap fee programs.

### **Assets Under Management**

As of June 30, 2022, Davies Financial Advisors manages \$110,299,247 in assets, all of which is managed on a discretionary basis.

### **Program Choices and Conflicts of Interest**

Clients should be aware that the compensation to Davies Financial Advisors and your advisor will differ according to the specific advisory program chosen. This compensation to us and your advisor may be more than the amounts we would otherwise receive if you participated in another program or paid for investment advice, brokerage, and/or other relevant services separately. As a result of the differences in fee schedules and other sources of compensation that exist among the various advisory programs and services offered by our firm and your advisor, Davies Financial Advisors and your advisor have a financial incentive to recommend a particular program or service over other programs or services. Lower fees for comparable services may be available from other sources. Davies Financial Advisors and your advisor have a financial incentive to recommend advisory programs or services that provide us higher compensation over other comparable programs or services available elsewhere that may cost you less.

It is important to understand all the associated costs and benefits of each option so you can decide which types of accounts and services may be best suited for your unique financial goals, investment objective, and time horizon. Davies Financial Advisors encourages you to review its Form CRS and to discuss your options with your advisor.

## **Item 5 – Fees and Compensation**

### **Asset Management Services**

#### **PPS Custom**

Clients participating in the PPS Custom program will generally pay the firm and their advisor for those services with an annual asset management fee based on a percentage of assets under management, including cash and money market positions. The management fee typically ranges from 0.75% to 1.4% on a blended fee basis for a household, with a maximum fee of 2.25% on any single account.

**Blended Fees**

A blended fee schedule looks at the account value and compares it to a set fee schedule. Based upon the value of the account at the end of the billing period, the fee schedule identifies specific portions of the account value to be charged at different fee rates. The total value of the account is compared against this schedule and based on the account size, the different fee rates are blended to determine the total account fee for that period.

For example, assume the following blended fee schedule:

| Account Value                   |                  | Fee      |
|---------------------------------|------------------|----------|
| <b>Greater than or equal to</b> | <b>Less than</b> |          |
|                                 | \$0              | \$50,000 |
|                                 |                  | 2.25%    |
| Next \$50,000                   | \$100,000        | 2.00%    |
| Next \$100,000                  | \$250,000        | 1.75%    |
| Next \$250,000                  | -                | 1.50%    |

Also, assume that the account value at the end of the billing period is \$200,000. In this hypothetical example, and assuming an advanced quarterly billing cycle is applied, the account fee for the upcoming quarter would be assessed as follows: First \$49,999 of the account value would be billed at a rate of 2.25% ( $\$49,999 \times 2.25\% = \$1,125$ ;  $\$1,125 \div 4 = \$281.25$ ); the next \$50,000 would be billed at a rate of 2.00% ( $\$50,000 \times 2.00\% = \$1,000$ ;  $\$1,000 \div 4 = \$250$ ); the next \$100,000 would be billed at a rate of 1.75% ( $\$100,000 \times 1.75\% = \$1,750$ ;  $\$1,750 \div 4 = \$437.50$ ).

Each of the different fee rate amounts is added together to determine the total quarterly account fee for that period, as follows:

$$\$281.25 + \$250 + \$437.50 = \$968.75 \text{ advance quarterly account fee}$$

**PPS Select**

Clients participating in the PPS Select Program will pay a total account fee that consists of a combination of a management fee and a program fee. The management fee typically ranges from 0.75% to 1.4% on a blended fee basis for a household, with a maximum fee of 2.25% on any single account.

In addition to the annual management fee, all clients participating in PPS Select will pay an annual program fee. There are several different PPS Select model portfolios with program fees that vary; however, the maximum fee within the PPS Select program is as follows:

| Account Value            | Maximum Program Fee* |
|--------------------------|----------------------|
| First \$250,000          | 0.60%                |
| Next \$250,000           | 0.50%                |
| Next \$500,000           | 0.45%                |
| Next \$1,000,000         | 0.40%                |
| Next \$3,000,000         | 0.35%                |
| Next \$5,000,000 or more | 0.30%                |

\*Commonwealth will charge a minimum annual program fee of \$600 (\$150 quarterly) for certain accounts, which may exceed the maximum annual program fee percentage based on account size.

Clients are urged to carefully review and discuss the contents of this Brochure with their advisor, including descriptions of the various programs and services offered, the fees and charges clients will pay, the means by which Davies Financial Advisors and your advisor are compensated, and the conflicts of interest that exist between the client and Davies Financial Advisors and your advisor in respect to each program or service offered, to determine the most appropriate programs or services for your specific needs.

In substantially all cases, the annual account management fee is payable quarterly in advance and is computed as one-quarter of the annual fee based on the AUM on the last business day of the previous calendar quarter. In limited circumstances, estimated quarter-end values of alternative investments provided by the product issuer may be used when calculating billable AUM. Please refer to the respective program description in this Brochure, Commonwealth's brochure or to the respective client agreement for specific information about the maximum fee allowed, the varying fee schedules of each program, and the methods of fee billing for the program(s) you select.

All Davies Financial Advisors advisory program and service fees are negotiable. Davies Financial Advisors may waive a particular fee, whether on an ongoing or a one-time basis, in its sole discretion. In the event a client terminates an advisory agreement with Davies Financial Advisors, any unearned fees resulting from payments made by clients in advance will be refunded to the client. Likewise, in the event Davies Financial Advisors bills clients in arrears for services that have already been rendered, Davies Financial Advisors will prorate such fees up to the termination date of the advisory agreement.

### **Financial Planning Services**

We offer our financial planning services on an hourly or fixed fee basis.

#### **Hourly Fees**

We perform services where the price of the service is based upon the amount of time to complete the service times an hourly rate. The rate per hour depends upon the level of complexity of the service and experience and expertise of the personnel used to do the work. This negotiable rate ranges from \$250 to \$500 per hour. The tasks and services to be performed are described in a Financial Planning Agreement that is signed by you and Davies Financial Advisors that also includes the hourly rate, an estimate of time to complete the project, and the procedure for refund or partial billing if the engagement is terminated before completion.

#### **Fixed Fees**

You may enter into a Financial Planning Agreement where the fee for services is determined through negotiations and agreement between you and Davies Financial Advisors. Fixed fees are not necessarily based upon the value of your assets or time expended providing services, but on the nature and complexity of each client's circumstances, as well as the individual conducting the work. Fixed fees typically range from \$7,500 to \$150,000 per engagement, are normally agreed to for one year, then renegotiated and agreed to for future periods. If you are paying a fixed fee you may pay a fee higher or lower than one based upon the value of assets managed. In the event a fixed fee engagement is terminated, unearned fees will be returned to you on a pro rata basis. Clients are not entitled to a refund for fees paid for work already performed.

You may terminate the Financial Planning Agreement you have with us without fee or penalty by providing written notice to Davies Financial Advisors within five (5) business days from the execution of the agreement. Thereafter, either party may terminate the Financial Planning Agreement by providing written notice. Any unearned fees collected in advance of services being performed will be returned to you on a pro rata basis.

### **Managed Account Fee Collection Process**

Managed account fees are typically automatically charged to the client's account pursuant to instructions provided to Commonwealth by Davies Financial Advisors. Rather than automatic fee debiting from a client's account, clients also can be direct billed by writing a check to Davies Financial Advisors for the fee amount based on prior agreement with the advisor.

Managed account clients will generally pay fees quarterly in advance. Financial planning clients will pay fees at time of service, in advance of service, or in arrears, as well as in monthly, quarterly, semiannual, or annual installments, as agreed to between the client and the advisor.

The initial quarterly fee will be prorated based on the number of billing days in the initial quarter. Fees are based on account value and account type and are negotiable. Other methods of fee calculation exist or are possible, depending on the specific program, the services provided, client circumstances, and the account size. These methods include, but are not limited to, hourly, flat, breakpoint, and blended fee billing. Additional deposits of funds and/or securities during a particular calendar quarter are subject to billing on a pro rata basis. Clients who withdraw funds from a managed account during a billing period are not generally entitled to a pro rata refund unless they are terminating their managed account program client agreement.

Davies Financial Advisors allows for the aggregation of assets among a client's "related" managed accounts for purposes of determining the value of AUM and the applicable advisory fee to be paid by a client. Davies Financial Advisors reserves the right to determine whether client accounts are "related" for purposes of aggregating a client's accounts together for a reduction in the percentage fee amount.

### **Other Fees and Costs**

When Commonwealth effects securities transactions for a client's account within the PPS Custom program, Commonwealth passes on to our clients the securities clearance and settlement fees charged by its clearing broker/dealer with a substantial markup that is retained by Commonwealth.

Commonwealth adds a markup to the transaction fees assessed by its clearing firm and paid by clients or clients' advisors to compensate Commonwealth for the cost of its resources utilized in processing the transaction(s) and to generate additional revenue for Commonwealth. Davies Financial Advisors typically passes on the securities clearance and settlement fees charged by Commonwealth and its clearing broker/dealer. The maximum charges are as follows:

| <b>Transaction Charges</b>                  |  |                                      |  |
|---|--|--------------------------------------|--|
| <b>Stocks, ETFs, and Closed-End Funds</b>   |  |                                      |  |
| Online Order Entry (including block trades) | \$7.95 <sup>1</sup> /\$4.95 <sup>2</sup> |                                      |  |
| Trader Assisted                             | \$25 <sup>1</sup>                        |                                      |  |
| Bonds, CDs, and CMOs                        | \$30 <sup>1</sup>                        |                                      |  |
| UITs  | \$20 <sup>1</sup>                        |                                      |  |
| <b>Options</b>                              |  |                                      |  |
| Online Order Entry (including block trades) | \$15 + \$1 per contract <sup>1</sup>     |                                      |  |
| Trader Assisted                             | \$20 + \$1.25 per contract <sup>1</sup>  |                                      |  |
| <b>Alternative Investments</b>              | \$50                                     |                                      |  |
| <b>Precious Metals</b>                      | \$50 <sup>1</sup>                        |                                      |  |
| <b>Mutual Funds</b>                         |  |                                      |  |
|   | <b>No Transaction Fee</b>                | <b>Supporting<sup>3</sup></b>        | <b>Nonsupporting<sup>4,5</sup></b>     |
| Buy   | \$0                                      | \$12 <sup>2</sup> /\$15 <sup>1</sup> | \$30 <sup>1</sup> /\$35 <sup>1,6</sup> |
| Sell  | \$0 <sup>7</sup>                         | \$12 <sup>2</sup> /\$15 <sup>1</sup> | \$30 <sup>1</sup> /\$35 <sup>1,6</sup> |
| Exchange                                    | \$0                                      | \$0                                  | \$30/\$35 <sup>6</sup>                 |
| PIP/SWP <sup>8</sup>                        | \$0                                      | \$0                                  | \$3                                    |

<sup>1</sup>Plus service fee of \$4 for accounts *not* enrolled in all available e-notification (e-delivery) options (excluding tax documents).

<sup>2</sup>Account *must* be enrolled in all available e-delivery options (excluding tax documents).

<sup>3</sup>Represents more than 500 supporting fund families from which Commonwealth receives revenue-sharing payments from NFS.

<sup>4</sup>Commonwealth does not receive revenue-sharing payments derived from investments in nonsupporting funds. NFS assesses Commonwealth a transaction surcharge for buys, sells, and exchanges of nonsupporting funds. Commonwealth's transaction charges are substantially higher for nonsupporting funds to compensate Commonwealth for the absence of revenue sharing and the assessment of a transaction surcharge by NFS. These nonsupporting fund families are CGM, Dodge & Cox, and Vanguard.

<sup>5</sup>While Commonwealth does receive revenue-sharing payments from NFS that are derived from Dimensional Fund Advisors (DFA) fund assets, these payments are substantially less as a percentage of fund assets than amounts paid by supporting fund families. Commonwealth therefore classifies DFA funds as nonsupporting funds. Unlike other nonsupporting funds, NFS does not assess Commonwealth a transaction surcharge for transactions in DFA funds. Nevertheless, Commonwealth assesses the same surcharges for buy transactions in DFA funds that are noted in footnote 4 for nonsupporting funds. DFA sell transaction surcharges are identified in footnote 3 which are lower than sell transactions for other nonsupporting funds identified in footnote 4. DFA sell transactions processed through the Commonwealth's trade desk shall be \$20. Commonwealth's receipt of revenue-sharing payments from DFA fund assets (albeit substantially less than from supporting funds), combined with the higher transaction charges for buys generates greater revenue for Commonwealth relative to DFA fund assets than the other nonsupporting funds identified in footnote 4.

<sup>6</sup>If processed by Commonwealth's Trade Desk.

<sup>7</sup>Funds purchased prior to their NTF effective date will still incur a transaction charge.

<sup>8</sup>Periodic investment plans (PIPs) and systematic withdrawal plans (SWPs) carry a \$100 minimum

Commonwealth adds a markup to the confirmation fees assessed by its clearing firm and paid by clients to cover the costs of client mailings, electronic delivery, account verification, and other costs assessed to Commonwealth by its clearing firm and to generate additional revenue for Commonwealth.

In addition to the charges noted above, clients incur certain charges in connection with certain investments, transactions, and services in your account. In many cases, Commonwealth will receive a portion of these fees and charges or add a markup to the charges clients would

otherwise pay to generate additional revenue for Commonwealth. The actual fees and charges that clients will incur are dependent upon the type of account and the nature and quantity of the transactions that occur, the services that are provided, or the positions that are held in the account. Additional fees and charges that clients will typically pay include, but are not limited to:

- Mutual fund or money market 12b-1 fees, subtransfer agent fees, and distributor fees
- Mutual fund and money market management fees and administrative expenses
- Mutual fund transaction and redemption fees
- Certain deferred sales charges on mutual funds purchased or transferred into the account
- Other transaction charges and service fees
- IRA and qualified retirement plan fees
- Other charges that may be required by law
- Brokerage account fees and charges
- HSA account fees

Information describing the brokerage fees and charges that are applicable to a Commonwealth brokerage or Davies Financial Advisors managed account is provided on Commonwealth's Schedule of Miscellaneous Account and Service Fees, which is available on Commonwealth's website at [www.commonwealth.com/clients/media/Commonwealth Brokerage Fee Schedule.pdf](http://www.commonwealth.com/clients/media/Commonwealth_Brokerage_Fee_Schedule.pdf).

Davies Financial Advisors may select share classes of mutual funds that pay advisors 12b-1, subtransfer agent, distributor, transaction, and/or revenue-sharing fees when lower-cost institutional or advisory share classes of the same mutual fund exist that do not pay Davies Financial Advisors or your advisor additional fees. As a matter of policy, Commonwealth (on Davies Financial Advisors' behalf) credits the mutual fund 12b-1 fees it receives from mutual funds purchased or held in Davies Financial Advisors managed accounts back to the client accounts paying such 12b-1 fees.

In most cases, mutual fund companies offer multiple share classes of the same mutual fund. Some share classes of a fund charge higher internal expenses, whereas other share classes of a fund charge lower internal expenses. Institutional and advisory share classes typically have lower expense ratios and are less costly for a client to hold than Class A shares or other share classes that are eligible for purchase in an advisory account. Mutual funds that offer institutional share classes, advisory share classes, and other share classes with lower expense ratios are available to investors who meet specific eligibility requirements that are described in the mutual fund's prospectus or its statement of additional information. These eligibility requirements include, but may not be limited to, investments meeting certain minimum dollar amounts and accounts that the fund considers qualified fee-based programs. The lowest-cost mutual fund share class for a fund may not be offered through our clearing firm or made available by Davies Financial Advisors for purchase within our managed accounts. Clients should never assume that they will be invested in the share class with the lowest possible expense ratio or cost.

Davies Financial Advisors urges clients to discuss with their advisor whether lower-cost share classes are available in their program account. Clients should also ask their advisor why the funds or other investments that will be purchased or held in their managed account are appropriate for them in consideration of their expected holding period, investment objective, risk tolerance, time horizon, financial condition, amount invested, trading frequency, the amount of the advisory fee charged, whether the client will pay transaction charges for fund purchases and sales, whether clients will pay

higher internal fund expenses in lieu of transaction charges that could adversely affect long-term performance, and relevant tax considerations. Your advisor may recommend, select, or continue to hold a fund share class that charges you higher internal expenses than other available share classes for the same fund.

The purchase or sale of transaction-fee (“TF”) funds available for investment through Davies Financial Advisors will result in the assessment of transaction charges to you, your advisor, or Commonwealth. Although no-transaction-fee (“NTF”) funds do not assess transaction charges, most NTF funds have higher internal expenses than funds that do not participate in an NTF program. These higher internal fund expenses are assessed to investors who purchase or hold NTF funds. Depending upon the frequency of trading and hold periods, NTF funds may cost you more, or may cost Commonwealth or your advisor less, than mutual funds that assess transaction charges but have lower internal expenses. In addition, the higher internal expenses charged to clients who hold NTF funds will adversely affect the long-term performance of their accounts when compared to share classes of the same fund that assess lower internal expenses.

The existence of various fund share classes with lower internal expenses that Davies Financial Advisors may not make available for purchase in its managed account programs present a conflict of interest between clients and Davies Financial Advisors or its advisors. A conflict of interest exists because Davies Financial Advisors and your advisor have a greater incentive to make available, recommend, or make investment decisions regarding investments that provide additional compensation to Davies Financial Advisors that cost clients more than other available share classes in the same fund that cost you less. For those advisory programs that assess transaction charges to clients or to Davies Financial Advisors or the advisor, a conflict of interest exists because Davies Financial Advisors and your advisor have a financial incentive to recommend or select NTF funds that do not assess transaction charges but cost you more in internal expenses than funds that do assess transaction charges but cost you less in internal expenses.

#### **Prorated Rebate of Fees Paid in Advance**

In the event a client terminates an advisory agreement with Davies Financial Advisors and his or her advisor, any unearned fees resulting from advanced payments will be refunded to the client. Likewise, in the event Davies Financial Advisors bills clients in arrears for services that have already been rendered, Davies Financial Advisors will prorate such fees up to the termination date of the advisory agreement.

#### **Other Forms of Compensation**

As mentioned above, an ongoing asset management fee, billed quarterly in advance, is the most common method of payment for the client and compensation to Davies Financial Advisors and the advisor. In some cases, the annual account fee may be payable monthly in advance, and certain managed account programs charge fees in arrears or will have differing methods of fee calculation. Please refer to the respective program description in this Brochure, to the respective client agreement, and to the respective TPAM Program Brochure (if applicable) for specific information about the maximum fee allowed, the varying fee schedules of each program, and the methods of fee billing for the program(s) you select.

When Davies Financial Advisors provides individual financial planning services for a client, the client typically pays for services rendered on a one-time basis, but compensation may be ongoing. For Retirement Plan Consulting, the fee may be an hourly, flat, fixed, or asset-based fee for providing one-time, or ongoing, advisory services to a plan. For individual financial planning services, the fee is typically an hourly, flat, or fixed fee. For both types of services, payment may be made either at the time of the

service, in advance, or in arrears. Clients should make checks payable to Davies Financial Advisors only in relation to Qualified Plan Consulting or Individual Financial Planning services. Checks should never be made payable to the advisor or any other entity under the control of the advisor in relation to any programs or services offered through Davies Financial Advisors. Clients who are asked or instructed by their advisor to make checks payable to the advisor or any entity under control of the advisor should contact Andrew Davies directly for verification.

Clients should be aware that, when assets are invested in shares of mutual funds or variable insurance products, clients will pay investment advisory fees to Davies Financial Advisors and to the advisor for their advisory services in connection with the investments. In addition to the payments received by Davies Financial Advisors and the advisor, clients will also typically pay management fees and other fees charged by the investment company, alternative investment, or insurance product sponsor. Clients may be able to invest directly in the investment company, alternative investment, or insurance product without incurring the investment advisory fees charged by Davies Financial Advisors. If a client's assets are invested in a fee-based annuity, the client will pay both the direct management fee to Davies Financial Advisors and his or her advisor for the advisory services provided by Davies Financial Advisors and the advisor in connection with that investment and, indirectly, the management and other fees charged by the underlying annuity investment options, as well as the charges assessed by the insurance company for the product. Clients should also be aware of the tax implications of investing, as well as of the existence of deferred sales charges or redemption fees charged by some product sponsors for positions the client subsequently sells in Davies Financial Advisors managed accounts.

**For California Residents:** Subsection (j) of Rule 260.238 of the California Code of Regulations requires that all investment advisers disclose to their advisory clients that lower fees for comparable services may be available from other sources.

**Special Disclosures for ERISA Plans:**

In this Brochure, Davies Financial Advisors has disclosed conflicts of interest, such as receiving additional compensation from third parties (e.g., 12b-1 fees, subtransfer agent fees, and revenue sharing) for providing marketing, recordkeeping, or other services in connection with certain investments. Davies Financial Advisors, however, has adopted policies and procedures that are designed to ensure compliance with the prohibited transaction rules under the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. For example, Davies Financial Advisors has taken several steps to address the conflict of interest associated with Davies Financial Advisors' or Davies Financial Advisors' advisors' receipt of compensation for services provided to ERISA plans.

First, an advisor negotiates the compensation with ERISA plan sponsors or participants ("ERISA clients") and the compensation is either an annual fee for ongoing services based on a percentage of assets under advisement, a flat fee, or an hourly rate. Second, to the extent that an advisor receives additional compensation from a third party, the advisor must report it to Davies Financial Advisors to enable the additional compensation to be offset against the fees that the ERISA clients would otherwise pay for the advisor's services. Third, Davies Financial Advisors has established a policy not to influence any advisor's advice or management of assets at any time or for any reason based on any compensation that Davies Financial Advisors or the advisor might receive from third parties. In no event will Davies Financial Advisors allow advisors to provide advice or manage assets for ERISA clients if they have conflicts of interest that Davies Financial Advisors believes are prohibited by ERISA.

As a covered service provider to ERISA plans, Davies Financial Advisors will comply with the U.S. Department of Labor regulations on fee disclosures, effective July 16, 2011 (or such other date as provided by the Department). Thus, Davies Financial Advisors and its advisors will disclose (i) direct compensation received from ERISA clients; (ii) indirect compensation (e.g., 12b-1 fees) received from third parties; and (iii) transaction-based compensation (e.g., commissions) or other similar compensation shared with related parties servicing the ERISA plan. These fee disclosures will be made reasonably in advance of entering into, renewing, or extending the advisory service agreement with the ERISA client.

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

Davies Financial Advisors does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## Item 7 – Types of Clients

Davies Financial Advisors generally provides advisory services to the following types of clients:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Business development companies
- Pension and profit-sharing plans
- Charitable organizations
- Insurance companies
- Corporations or other businesses not listed above

Davies Financial Advisors' managed account programs generally require a minimum investment of \$500,000. We reserve the right to waive the minimum in our sole discretion. In some cases, account balances may be combined at the household level to satisfy the account minimum.

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

Investing in securities involves risk of loss that investors should be sure they understand and should be prepared to bear.

Davies Financial Advisors primarily serves retail investors. Each advisor associated with Davies Financial Advisors has the independence to take the approach he or she believes is most appropriate when analyzing investment products and strategies for clients. There are several sources of information that Davies Financial Advisors and the advisor may use as part of the investment analysis process. These sources include, but are not limited to:

- Financial publications
- Research materials prepared by others
- Corporate rating services
- SEC filings (annual reports, prospectus, 10-K, etc.)
- Company press releases

As a firm, Davies Financial Advisors does not favor any specific method of analysis over another and, therefore, would not be considered to have one approach deemed to be a “significant strategy.” There are, however, a few common approaches that may be used by Davies Financial Advisors or your advisor, individually or collectively, in the course of providing advice to clients. Please note that there is no investment strategy that will guarantee a profit or prevent loss. Following are some common strategies employed by advisors in the management of client accounts:

- **Dollar Cost Averaging (“DCA”):** The technique of buying a fixed dollar amount of a particular investment on a regular schedule, regardless of the share price. More shares are purchased when prices are low, and fewer shares are bought when prices are high. DCA is believed to lessen the risk of investing a large amount in a single investment at higher price. DCA strategies are not effective and do not prevent against loss in declining markets.
- **Asset Allocation:** An investment strategy that aims to balance risk and reward by allocating assets among a variety of asset classes. At a high level, there are three main asset classes—equities (stocks), fixed income (bonds), and cash/cash equivalents—each of which has different risk and reward profiles/behaviors. Asset classes are often further divided into domestic and foreign investments, and equities are often divided into small, intermediate, and large capitalization. The general theory behind asset allocation is that each asset class will perform differently from the others in different market conditions. By diversifying a portfolio of investments among a wide range of asset classes, advisors seek to reduce the overall volatility and risk of a portfolio through avoiding overexposure to any one asset class during various market cycles. Asset allocation does not guarantee a profit or protect against loss.
- **Technical Analysis (aka “Charting”):** A method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security’s intrinsic value. Instead, they use charts and other tools to identify patterns that can suggest future activity. When looking at individual equities, a person using technical analysis generally believes that performance of the stock, rather than performance of the company itself, has more to do with the company’s future stock price. It is important to understand that past performance does not guarantee future results.
- **Fundamental Analysis:** A method of evaluating a security that entails attempting to measure its intrinsic value by examining related economic, financial, and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security’s value, including macroeconomic factors (e.g., the overall economy and industry conditions) and company-specific factors (e.g., financial condition and management). The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security’s current price, with the aim of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short). This method of security analysis is considered to be the opposite of technical analysis.
- **Quantitative Analysis:** An analysis technique that seeks to understand behavior by using complex mathematical and statistical modeling, measurement, and research. By assigning a numerical value to variables, quantitative analysts try to replicate reality mathematically. Some believe that it can also be used to predict real-world events, such as changes in a share price.

- **Qualitative Analysis:** Securities analysis that uses subjective judgment based on non-quantifiable information, such as management expertise, industry cycles, strength of research and development, and labor relations. This type of analysis technique is different from quantitative analysis, which focuses on numbers. The two techniques, however, are often used together.

### Risks of Loss

Regardless of what investment strategy or analysis is undertaken, investing in securities involves risk of loss that clients must be prepared to bear; in fact, some investment strategies could result in total loss of your investment. Some risks may be avoided or mitigated, while others are completely unavoidable. Some of the common risks you should consider prior to investing include, but are not limited to:

- **Market risks:** The prices of, and the income generated by, the common stocks, bonds, and other securities you own may decline in response to certain events taking place around the world, including those directly involving the issuers; conditions affecting the general economy; overall market changes; local, regional, or global political, social, or economic instability; governmental or governmental agency responses to economic conditions; and currency, interest rate, and commodity price fluctuations.
- **Interest rate risks:** The prices of, and the income generated by, most debt and equity securities may be affected by changing interest rates and by changes in the effective maturities and credit ratings of these securities. For example, the prices of debt securities generally will decline when interest rates rise and will increase when interest rates fall. In addition, falling interest rates may cause an issuer to redeem, "call," or refinance a security before its stated maturity date, which may result in having to reinvest the proceeds in lower-yielding securities.
- **Credit risks:** Debt securities are also subject to credit risk, which is the possibility that the credit strength of an issuer will weaken and/or an issuer of a debt security will fail to make timely payments of principal or interest and the security will go into default.
- **Geopolitical risks:** Investments in securities issued by entities based outside the United States may be subject to the risks described above to a greater extent.
- **Product Risks:** A structured product, also known as a market-linked product, is generally a pre-packaged investment strategy based on derivatives, such as a single security, a basket of securities, options, indices, commodities, debt issuances, and/or foreign currencies, and to a lesser extent, swaps. They have a fixed maturity and have two components: a note and a derivative. The derivative component is often an option. The note provides for periodic interest payments to the investor at a predetermined rate, and the derivative component provides for the payment at maturity. Some products use the derivative component as a put option written by the investor that gives the buyer of the put option the right to sell to the investor the security or securities at a Structured predetermined price. Other products use the derivative component to provide for a call option written by the investor that gives the buyer of the call option the right to buy the security or securities from the investor at a predetermined price. A feature of some structured products is a "principal guarantee" function, which offers protection of principal if held to maturity. However, these products may only be insured by the issuer, and thus have the potential for loss of principal in the case of a liquidity crisis, or other solvency

problems with the issuing company. Investing in structured products involves a number of risks including but not limited to: fluctuations in the price, level or yield of underlying instruments, interest rates, currency values and credit quality, substantial loss of principal, limits on participation in any appreciation of the underlying instrument, limited liquidity, credit risk of the issuer, and conflicts of interest.

- **Real Estate:** Real estate is increasingly being used as part of a long-term core strategy due to increased market efficiency and increasing concerns about the future long-term variability of stock and bond returns. In fact, real estate is known for its ability to serve as a portfolio diversifier and inflation hedge. However, the asset class still bears a considerable amount of market risk. Real estate has shown itself to be very cyclical, somewhat mirroring the ups and downs of the overall economy. In addition to employment and demographic changes, real estate is also influenced by changes in interest rates and the credit markets, which affect the demand and supply of capital and thus real estate values. Along with changes in market fundamentals, investors wishing to add real estate as part of their core investment portfolios need to look for property concentrations by area or by property type. Because property returns are directly affected by local market basics, real estate portfolios that are too heavily concentrated in one area or property type can lose their risk mitigation attributes and bear additional risk by being too influenced by local or sector market changes.

Investments may also be affected by currency controls; different accounting, auditing, financial reporting, disclosure, and regulatory and legal standards and practices; expropriation (occurs when governments take away a private business from its owners); changes in tax policy; greater market volatility; different securities market structures; higher transaction costs; and various administrative difficulties, such as delays in clearing and settling portfolio transactions or in receiving payment of dividends. These risks may be heightened in connection with investments in developing countries. Investments in securities issued by entities domiciled in the United States may also be subject to many of these risks.

Any of the common risks described above could adversely affect the value of your portfolio and account performance, and you can lose money. Even though these risks exist, Davies Financial Advisors and your advisor will still earn the fees and other compensation described in this Brochure. Clients should carefully consider the risks of investing and the potential that they may lose principal while Davies Financial Advisors and your advisor continue to earn fees and other forms of compensation.

Your investments are not bank deposits and are not insured or guaranteed by the FDIC or any other governmental agency, entity, or person, unless otherwise noted and explicitly disclosed as such, and as such may lose value.

## Item 9 – Disciplinary Information

Neither Davies Financial Advisors nor any of its management personnel have disciplinary information to report in this section.

## Item 10 – Other Financial Industry Activities and Affiliations

Davies Financial Advisors and its management persons are not registered or have an application pending to register as a: broker-dealer or register representative of a broker-dealer; futures commission merchant; commodity pool operator; commodity trading advisor; or associated person of the foregoing entities.

Neither Davies Financial Advisors nor its management persons have a relationship with any of the following entities: broker/dealer, municipal securities dealer, or government securities broker/dealer, investment company or other pooled investment vehicle, other investment adviser or financial planner, futures commission merchant, commodity pool operator or commodity trading advisor, banking or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant, real estate broker or dealer or sponsor syndicator of limited partnerships. Davies Financial Advisors and its Advisory Representative are not actively engaged in any other financial industry entity.

As described in Item 4, Davies Financial Advisors offers clients the investment advisory programs and/or services of Commonwealth. Should you be offered one or more of these programs, you are advised that Davies Financial Advisors, your Advisory Representative and Commonwealth will receive compensation pursuant to your participation in Commonwealth's programs. The advisory fees associated with these programs may be higher or lower than advisory fees for similar programs with other investment advisers. Davies Financial Advisors and your Advisory Representative have a conflict of interest in recommending that you participate in these programs given the compensation that will be received. Davies Financial Advisors performs reasonable due diligence on Commonwealth on both an initial and ongoing basis. We attempt to mitigate this conflict by providing you with this disclosure document and noting that clients may be able to receive similar services for less cost from other providers.

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

Pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended, Davies Financial Advisors has adopted a Code of Ethics that governs conflicts of interest we have when providing our advisory services to you. Our Code of Ethics is designed to ensure that we meet our fiduciary obligations to you and to foster a culture of compliance throughout our firm.

Our Code of Ethics is comprehensive and is designed to help us detect and prevent violations of securities laws and to help ensure that we always keep your interests first. We distribute our Code of Ethics to each supervised person at Davies Financial Advisors at the time of his or her initial affiliation with our firm; we make sure it remains available to each supervised person for as long as he or she remains associated with our firm; and we ensure that updates to our Code of Ethics are communicated to each supervised person as changes are made.

Our Code of Ethics sets forth certain standards of conduct and addresses conflicts of interest between our firm, our employees, our agents, our advisors, and our advisory clients. Clients and prospective clients of Davies Financial Advisors may request a copy of our Code of Ethics at any time.

Davies Financial Advisors and its advisors may purchase or sell for their own accounts securities or other investment products that are also recommended to clients, which may create a conflict of interest. Davies Financial Advisors policy prohibits “trading ahead” of clients’ transactions. When advisors are purchasing or selling securities for their own accounts, priority will be given to client transactions. Davies Financial Advisors has implemented a review process that is designed to identify and correct situations in which firm or advisor transactions are placed ahead of client transactions.

## Item 12 – Brokerage Practices

### **The Custodians and Brokers We Use**

Davies Financial Advisors does not maintain custody of your assets; although we will be deemed to have custody of your assets if you give us authority to withdraw advisory fees from your account (see Item 15 – Custody below). Your assets must be maintained in an account at a “qualified custodian”, generally a broker dealer or other financial institution. We primarily recommend that our clients use National Financial Services, a registered broker-dealer, member SIPC, as a qualified custodian. At times, we may utilize other qualified custodians to hold your assets. We are independently owned and operated and are not affiliated with National Financial Services or any other qualified custodian. The qualified custodian will hold your assets in a brokerage account and buy and sell securities with our instruction. While we will recommend a qualified custodian to hold your assets, you will decide whether to do so and will open the account directly at the qualified custodian with our assistance.

### **How We Select Brokers/Custodians**

We seek to use a custodian/broker who will hold your assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:

- Combination of transaction execution services and asset custody services
- Capability to execute, clear and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], limited partnerships)
- Availability of investment research and tools that assist us in making investment decisions.
- Quality of services
- Competitiveness of the price of those services and willingness to negotiate the prices
- Reputation, financial strength, and stability
- Prior service to us and our other clients
- Availability of other products and services that benefit us

### **Your Brokerage and Custody Costs**

For our clients’ accounts that Davies Financial Advisors maintains via National Financial Services, Davies Financial Advisors and National Financial Services generally do not charge you separately for custody services but are compensated by charging you commissions or other fees on trades that are executed or settled into your account. Commonwealth’s commission rates applicable to our client accounts were negotiated based on the condition that our clients collectively maintain a total of at least \$50,000,000 of

their assets in accounts at National Financial Services. For client accounts at Commonwealth, this commitment benefits you because the overall commission rates you pay are lower than they would be otherwise. Because of these factors, to minimize your trading costs, we have Commonwealth (via NFS) execute most trades for your account(s). We have determined that having Commonwealth/NFS execute most trades is consistent with our duty to seek “best execution” of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see “How We Select Brokers/Custodians”).

### **Products and Services Available to Us from Commonwealth and Our Custodians**

Commonwealth Financial Network provides Davies Financial Advisors with various products and services that enable us to both serve our clients and grow our business. Commonwealth (through their disclosed clearing relationships with National Financial Services and Pershing) provide us and our clients with access to its brokerage services— trading, custody, reporting, and related services. Commonwealth also makes available various support services. Some of those services help us manage or administer our clients’ accounts while others help us manage and grow our business. Following is a more detailed description of Commonwealth’s support services:

#### *Services That Benefit You.*

Commonwealth’s brokerage services include access to a broad range of investment products, execution of securities transactions by Commonwealth’s clearing firms, and custody of client assets via their clearing firms. The investment products available through Commonwealth include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Commonwealth’s services described in this paragraph generally benefit you and your account.

#### *Services That May Not Directly Benefit You.*

Commonwealth also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients’ accounts. They include investment research, both Commonwealth’s and that of third parties. We use this research to service all or a substantial number of our clients’ accounts, including accounts not maintained at Commonwealth. In addition to investment research, Commonwealth also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution
- Provide pricing and other market data
- Facilitate payment of our fees from our clients’ accounts
- Assist with back-office functions, recordkeeping and client reporting

#### *Services That Generally Benefit Only Us.*

Commonwealth also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Complementary or discounted attendance at conferences and events
- Consulting on technology, compliance, legal and business needs
- Publications and conferences on practice management and business succession

#### *Our Interest in Commonwealth's Services*

Our relationship with Commonwealth requires that we maintain a certain level of assets within Commonwealth's program. This creates an incentive to recommend that you establish and maintain your account with Commonwealth, based on our interest in receiving Commonwealth's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a conflict of interest. To mitigate the conflict, this disclosure is provided to you. As a fiduciary, we must act in your best interests. We believe that our selection of National Financial Services or Pershing (via Commonwealth) as custodian and broker is in the best interests of our clients.

Our selection is primarily supported by the scope, quality, and price of Commonwealth's services (see "How We Select Brokers/Custodians") and not Commonwealth's services that benefit only us.

#### **Block Trading Policy**

Davies Financial Advisors may aggregate ("bunch") transactions in the same security on behalf of more than one client to strive for best execution and to possibly reduce the price per share. However, aggregated or bunched orders will not reduce the transaction costs to participating clients. Typically, the process of aggregating client orders is done to achieve better execution, to negotiate more favorable commission rates or to allocate orders among clients on a more equitable basis in order to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently. Davies Financial Advisors conducts aggregated transactions in a manner designed to ensure that no participating client is favored over another client.

Participating clients will obtain the average share price per share for the security executed that day. To the extent the aggregated order is not filled in its entirety and when possible, securities purchased or sold in an aggregated transaction will be allocated pro-rata to the participating client accounts in proportion to the size of the orders placed for each account. The amount of securities maybe increased or decreased to avoid holding odd-lot or a small number of shares for particular clients. It should be noted, Davies Financial Advisors does not receive any additional compensation or remuneration as a result of aggregation. Advisory clients purchase funds at net asset value.

#### **Soft Dollars**

Davies Financial Advisors does not use commissions to pay for research and brokerage services (i.e., soft dollar transactions). Research, along with other products and services other than trade execution, are available to Davies Financial Advisors on a cash basis from various vendors.

#### **Core Account Sweep Programs ("CASPs")**

Our relationship with Commonwealth provides us access to two core account sweep programs ("Programs"). These Programs are the core account investment vehicles used to hold your cash balances while awaiting reinvestment for eligible accounts. The two Programs, the Bank Deposit Sweep Program ("BDSP") and the Advisory Retirement Sweep Retirement ("ARSP"), are available for different types of client accounts. The BDSP is the core account investment vehicle for eligible brokerage accounts. The

ARSP is the core account investment vehicle for eligible advisory individual retirement accounts. The cash balance in your eligible accounts will be deposited automatically or “swept” into interest-bearing FDIC-insurance eligible Program deposit accounts (“Deposit Accounts”) at one or more FDIC-insured financial institutions (each a “Program Bank” or collectively, “Program Banks”).

**BDSP.** The Program creates financial benefits for Commonwealth and NFS. Commonwealth will receive a fee from each Program Bank in connection with the Program (equal to a percentage of all participants’ average daily deposits at the Program Banks). Amounts will vary but in no event will they be more than 2.50% on an annualized basis as applied across all Deposit Accounts. At Commonwealth’s discretion, Commonwealth may reduce or raise fees and vary the amount of the reductions between clients based on market conditions. Although the fees vary from Program Bank to Program Bank, the Program pools all fees in an effort to treat clients equally, regardless of in which individual bank clients’ funds may be deposited. The fee amount received will reduce the interest rate paid to clients by the Program Bank. Commonwealth will also pay a fee to NFS. Commonwealth reserves the right to modify the fees Commonwealth receives from Program Banks. From time to time, if the fee increases, you will receive notification of any such change. In addition to Commonwealth’s fees, other service providers with respect to the Program will receive fees from each Program Bank (collectively, with the fees paid to us and/or NFS, “Program Fees”). In addition to the Program Fees referenced above, your non-brokerage retirement advisory account will be charged additional fees that apply to the securities accounts maintained by you.

Cash balances in the Program are also included in the value of account assets used to calculate the management fees and other asset-based fees charged to your PPS advisory accounts.

The Program Banks use Program Deposits to fund current and new lending and for investment activities. The Program Banks earn net income from the difference between the interest they pay on Program Deposits and the fees paid to Commonwealth and the income they earn on loans, investments, and other assets. As noted above, the Program Banks may pay rates of interest on Program Deposits that are lower than prevailing market interest rates that have been paid on accounts otherwise opened directly with the Program Bank. Program Banks do not have a duty to provide the highest rates available and may instead seek to pay a low rate. Lower rates will be more financially beneficial to a Program Bank. There is no necessary linkage between bank rates of interest and the highest rates available in the market, including any money market mutual fund rates. By comparison, a money market mutual fund generally seeks to achieve the highest rate of return (less fees and expenses) consistent with the money market mutual fund’s investment objective, which can be found in the fund’s prospectus.

The revenue generated by Commonwealth may be greater than revenues generated by sweep options at other brokerage firms and may be greater than other core account investment vehicles currently available to you or possible core account investment vehicles that Commonwealth has used in the past or may consider using in the future. In addition, Commonwealth will make compensation payments to NFS, their clearing agent, for recordkeeping and other services with respect to amounts invested in the Program, which will be no more than 70 basis points (0.70%). NFS may receive more revenue with respect to amounts in the Program than with respect to other sweep products. Because of the fees and benefits described above, the Program may be more profitable to Commonwealth than other available sweep options, if any. Commonwealth and/or NFS will benefit from the possession and temporary investment of cash balances prior to the deposit of such balances in the Program.

**ARSP.** The Program provides financial benefits for Commonwealth and NFS. For their services in connection with maintaining and administering the Program, Commonwealth and NFS will receive fees, including a per-account fee if certain independent market triggers are satisfied. It is expected that these fees will be covered by income generated by the cash balances in the Program, with the remaining economics flowing to you. Both your and Commonwealth's fees are based on a fixed formula and vary based on factors such as the Federal Funds Effective Rate ("FFER"), total AUM, and number of accounts in the Program. Commonwealth's fee will be the sum of two fees: (i) a variable rate that is a subset of the total rate applied to a portion of the cash balances in the Program ("Variable Fee"), and (ii) a per-account fee ("Account Fee"). In addition to the Program Fees referenced above, client accounts are charged additional fees that apply to the securities accounts maintained by clients. Cash balances in the Program are also included in the value of account assets used to calculate the management fees and other asset based fees Commonwealth charges to PPS advisory accounts.

The account interest received will be the net of the gross fee paid by the Program Banks less the fees paid to the administering party, NFS, and Commonwealth. When the FFER is 1.00%, Commonwealth will receive 95 basis points (0.95%). As the FFER increases above 1.00%, most of the incremental economics will generally flow to you, as the Program shares 70.00% of the change in the underlying market interest rates as measured by the FFER with you, with the remaining 30.00% flowing to Commonwealth, establishing Commonwealth's Variable Fee. When the FFER declines below 1.00%, Commonwealth will absorb 100.00% of the variance in the fee, and you will continue to be paid the net remaining interest. Commonwealth's minimum Variable Fee rate applied is 15 basis points (0.15%) per account. Commonwealth reserves the right to temporarily reduce or waive this minimum account fee at any time. Commonwealth's Account Fee will be \$1.00 per account each month and applied when the average monthly FFER from the prior month exceeds 1.10%. Both of Commonwealth's fees are expected to be received directly from the proceeds paid by the participating Program Banks and not directly from your account, although in the event that the proceeds paid from the Program Banks are insufficient, Commonwealth may charge your account directly to cover the fees. While your yield will be available on your account statement, these fees will not generally be seen on your statement unless there is a need to charge your account directly. We do not receive any of the fees received by Commonwealth or NFS. Other than these stated fees, there will be no charges, fees, or commissions imposed on your account with respect to the Program.

The total ARSP economics are based on and, therefore, vary due to three primary factors: (i) the amount of cash balances in the Program, (ii) the number of accounts in the Program, and (iii) market interest rates, which are typically represented by the FFER. Commonwealth's compensation under the Program is not affected by the actual amounts held in the Deposit Accounts but will vary with the FFER. The Variable Fee rate will be applied to a fixed representation of cash balances, defined as 4.00% of total assets within accounts related to the ARSP Program under administration by Commonwealth. Amounts will vary, but in no event will Commonwealth's compensation be more than 250 basis points (2.50%) on an annualized basis across all Deposit Accounts.

Commonwealth can change the applicable fee schedule upon thirty (30) days' advance notice to you. The current FFER can be found at [www.federalreserve.gov/monetarypolicy/openmarket.htm](http://www.federalreserve.gov/monetarypolicy/openmarket.htm).

Applicable law governing retirement accounts, such as qualified plans under ERISA and individual retirement accounts under the Internal Revenue Code, necessitates that interest rates paid by the Program Banks for deposits in the Deposit Accounts, Commonwealth's fee, and other service fees were

negotiated at arm's length, are believed to be fair and reasonable, and are designed to approximate the value for the services involved and in the context of clients' Eligible Assets.

Although it is anticipated that Commonwealth's fees under the Program will be covered by amounts paid by the Program Banks, and you direct NFS to collect such fees from the amounts collected from Program Banks, Commonwealth reserves the right to withdraw (or direct NFS to withdraw) the monthly account fee, or a portion thereof, from your account in the unlikely event or to the extent that the amount received from the Program Banks for the period is less than Commonwealth's fee for the same period.

The revenue generated by Commonwealth will vary compared to revenues generated by sweep options at other brokerage firms or possible core account investment vehicles that Commonwealth has used in the past or may consider using in the future. In addition, Commonwealth will make compensation payments to NFS, their clearing agent, for recordkeeping services with respect to amounts invested in the Program, which will be no more than 70 basis points (0.70%). NFS or the Program administrator may, from time to time, temporarily reduce its fees during certain periods, such as when necessary to help ensure that the interest rates paid by the Program Banks during the period equal the applicable disclosed client rate for the period. Under such circumstances, NFS or the Program administrator, as the case may be, may recover any such reduced fees, subject to its targeted compensation rate, from future periods. NFS may receive more revenue with respect to amounts in the Program than with respect to other sweep products.

Clients should note that although the default option for cash in Commonwealth advisory accounts is generally these Core Sweep Programs, Clients have the right to seek higher yields in other available investment options.

Specific features and account eligibility of the CASP are further explained in the Disclosure Document provided to all Commonwealth brokerage clients. A current version of Commonwealth's CASP Disclosure Document is available at [www.commonwealth.com/clients/media/BankSweepDisclosureDocument.pdf](http://www.commonwealth.com/clients/media/BankSweepDisclosureDocument.pdf).

### **Money Market Accounts**

For client assets awaiting reinvestment that are not eligible to invest in CASP, including Keogh plans, the Fidelity Government Money Market Fund (SPAXX) is the default money market fund used for accounts held at NFS. Clients may instruct their advisor to manually select a Money Class money fund rather than the default Fidelity Government Money Market Fund at any time.

### **NTF Program**

Additionally, NFS offers an NTF program composed of no-load mutual funds. Participating mutual fund sponsors pay a fee to NFS to participate in this program, and a portion of this fee is shared with Commonwealth. None of these additional payments is paid to Davies Financial Advisors or any advisors who sell these funds. NTF mutual funds may be purchased within an investment advisory account at no charge to the client. Clients, however, should be aware that funds available through the NTF program often contain higher internal expenses than mutual funds that do not participate in the NTF program. Commonwealth's receipt of a portion of the fees associated with the NTF program creates a conflict of interest because Commonwealth has an incentive to make available those products that provide such compensation to NFS and Commonwealth over those mutual fund sponsors that do not make such payments to NFS and Commonwealth. While Davies Financial Advisors does not receive additional compensation from NFS or Commonwealth based on the particular investment (potentially including

one or more NTF funds), Davies Financial Advisors' menu of investment options is limited to investments made available by Commonwealth. Thus, clients may be impacted by the conflict of interest previously described in this paragraph. As stated previously, Davies Financial Advisors regularly evaluates our relationship with Commonwealth to ensure it remains appropriate for the firm and our clients.

The investment advisory services provided by Davies Financial Advisors may cost the client more or less than purchasing similar services separately. Clients should consider whether the appointment of Commonwealth as the sole broker/dealer may result in certain costs or disadvantages to the client as a result of possibly less favorable executions. Factors to consider include the type and size of the account and the client's historical and expected account size or number of trades.

## Item 13 – Review of Accounts

All asset management client accounts are reviewed by an Investment Advisor Representative (IAR) of the firm on a quarterly basis, or when changes in client circumstances or market conditions warrant. Securities held in managed accounts are regularly reviewed by the firm's investment committee.

Clients will be provided statements at least quarterly directly from account custodian where your assets are maintained. Additionally, you will receive confirmations of all transactions directly from account custodian. All non-retirement accounts and retirement accounts for those clients taking distributions will receive an annual tax reporting statement. In addition, at least once a year, all managed account clients will receive a performance report. You should compare the report with statements received directly from the account custodian(s). Should there be any discrepancy; the account custodian's report will prevail.

## Item 14 – Client Referrals and Other Compensation

Davies Financial Advisors receives an economic benefit from Commonwealth in the form of the support, products and services Commonwealth makes available to Davies Financial Advisors and other investment advisors whose clients maintain their accounts on Commonwealth's platform. These products and services, how they benefit us, and the related conflicts of interest are described in Item 12 of this brochure.

Our access to Commonwealth's products and services is not conditioned on our firm or our advisors giving particular investment advice, such as buying particular securities for our clients. Product vendors recommended by Davies Financial Advisors may provide monetary and non-monetary assistance for the purposes of funding marketing, distribution, business and client development, educational enhancement and/or due diligence reviews incurred by Davies Financial Advisors or our advisors relating to the promotion or sale of the product vendor's products or services. We do not select products as a result of the receipt or potential receipt of any monetary or non-monetary assistance. Davies Financial Advisors' due diligence of a product does not take into consideration any assistance it may receive. While the receipt of products or services is a benefit for you and us, it also presents a conflict of interest. We attempt to mitigate this conflict of interest by:

- Informing you of conflicts of interest in our disclosure document and agreement;
- Maintaining and abiding by our Code of Ethics which requires us to place your interests first and foremost;

- Advising you of the right to decline to implement our recommendations and the right to choose other financial professionals for implementation.

Commonwealth offers our firm and our firm's advisory representatives one or more forms of financial benefits based on our advisory representatives' total AUM held at Commonwealth or financial assistance for advisory representatives transitioning from another firm to Commonwealth. The types of financial benefits that our advisory representatives may receive from Commonwealth include, but are not limited to, forgivable or unforgivable loans, enhanced payouts, and discounts or waivers on transaction, platform, and account fees; technology fees; research package fees; financial planning software fees; administrative fees; brokerage account fees; account transfer fees; licensing and insurance costs; and the cost of attending conferences and events. The enhanced payouts, discounts, and other forms of financial benefits that advisory representatives may receive from Commonwealth are a conflict of interest and provide a financial incentive for advisory representatives to select Commonwealth as broker/dealer for your accounts over other broker/dealers from which they may not receive similar financial benefits. We attempt to mitigate this conflict of interest by disclosing the conflict in this brochure and engaging in a regular review of our relationship with Commonwealth to ensure the relationship continues to be appropriate in all respects for our firm's clients.

#### **Davies Financial Advisors' Use of Solicitors**

Davies Financial Advisors does not accept or pay fees for client referrals from solicitors.

## **Item 15 – Custody**

Davies Financial Advisors maintains a relationship with Commonwealth who, as described previously in this brochure, maintains a primary clearing relationship for the execution of client transactions with NFS as the account custodian, and a secondary clearing relationship for the execution of client transactions with Pershing as the account custodian. Substantially all clients must select Commonwealth as the broker/dealer of record and NFS as the clearing firm for their managed accounts. In all cases, the name and address of the account custodian will be identified in the respective managed account client agreement.

Clients who establish a managed account with Davies Financial Advisors utilizing Commonwealth as the broker/dealer of record will receive custodial account statements directly from the respective custodian that holds those assets, such as NFS, Pershing, or a direct product sponsor. Clients should carefully review the statements they receive from their account custodians and should promptly report material discrepancies to Davies Financial Advisors at the phone number or email listed on the cover page of this brochure.

Davies Financial Advisors clients may also receive portfolio summary or performance reporting for their managed accounts from Davies Financial Advisors or their advisor that are in addition to the account statements clients receive directly from the respective account custodian. Davies Financial Advisors urges you to compare the account statements you receive from your account custodian with any account summary statements or reports you receive from us or your advisor. Although account holdings and asset valuations should generally match, for purposes of calculating performance and account valuations on your account, our summary or performance reporting month-end market values sometimes differ from custodial account statement month-end market values. The three most common reasons why these values may differ are differences in the way accrued interest is calculated, the date

upon which “as of” dividends and capital gains are reported, and settlement date versus trade date valuations.

If you believe there are material discrepancies between your custodial statement and the summary statements or reports you receive from Davies Financial Advisors or your advisor, please contact Davies Financial Advisors directly at the phone number or email listed on the cover page of this brochure.

## Item 16 – Investment Discretion

Davies Financial Advisors renders investment advice to all of its managed account clients on a discretionary basis, pursuant to written authorization granted by the client to Davies Financial Advisors and your advisor. This authorization grants to Davies Financial Advisors and your advisor the discretion to buy, sell, exchange, convert, or otherwise trade in securities and/or insurance products, and to execute orders for such securities and/or insurance products with or through any distributor, issuer, or broker/dealer as Davies Financial Advisors or your advisor may select. Your advisor may, without obtaining your consent, determine which products to purchase or sell for your managed account, as well as when to purchase or sell such products, and the prices to be paid. Neither Davies Financial Advisors nor your advisor, however, is granted authority to take possession of your assets or direct the delivery of your assets to anywhere other than your address of record. You may terminate this discretionary authorization at any time by providing written notice to us.

Clients may impose reasonable restrictions on their managed account, including, but not limited to, the type, nature, or specific names of securities to be bought, sold, or held in their managed account, as well as the type, nature, or specific names of securities that may not be bought, sold, or held in their managed account. Clients generally grant Davies Financial Advisors and their advisor discretionary trading authority over their managed accounts. If not specifically requested otherwise by the client, discretionary authority will be established at the time the account is first opened. Our managed account program does, however, permit the client to choose to have Davies Financial Advisors and the advisor provide investment advice and recommendations to the client on a nondiscretionary basis. Clients who wish to receive advice with respect to their managed account on a nondiscretionary basis would need to execute an amendment to modify the client agreement to be nondiscretionary. Clients may request a copy of the nondiscretionary amendment form from their advisor if they desire to exercise this option.

As a matter of firm policy, neither Davies Financial Advisors nor its advisors have or will accept the authority to file class action claims on behalf of clients. This policy reflects Davies Financial Advisors’ recognition that it does not have the requisite expertise to advise clients about participating in class actions. Davies Financial Advisors and its advisors have no obligation to determine if securities held by the client are subject to a pending or resolved class action settlement or verdict. Davies Financial Advisors and its advisors also have no duty to evaluate a client’s eligibility or to submit a claim to participate in the proceeds of a securities class action settlement or verdict. Furthermore, Davies Financial Advisors and its advisors have no obligation or responsibility to initiate litigation to recover damages on behalf of clients who may have been injured because of actions, misconduct, or negligence by corporate management of issuers whose securities are held by clients. The decision to participate in a class action or to sign a release of claims when submitting a proof of claim may involve the exercise of legal judgment, which is beyond the scope of services provided to clients by Davies Financial Advisors or your advisor. In all cases, clients retain the responsibility for evaluating whether it is prudent to join a class action or to opt out.

## Item 17 – Voting Client Securities

As a matter of firm policy, and in accordance with this Brochure and our advisory client agreements, neither Davies Financial Advisors nor our advisors have or will accept the authority to vote proxies on behalf of advisory clients in any situation where Davies Financial Advisors or the adviser acts as investment adviser to the client. Davies Financial Advisors or our advisors may, but are not obligated to, provide advice to clients regarding the clients' voting of proxies. In all cases, clients must either retain the responsibility for receiving and voting proxies for all securities maintained in their managed accounts, or they must appoint a third-party investment adviser or other person who is not associated with Davies Financial Advisors to vote proxies for their managed accounts.

In the event the advisor chooses to provide advice to clients designed to assist the client in deciding as to how to vote their proxies, the advisor has a fiduciary duty to disclose to the client any material conflicts of interest the advisor may have with respect to such advice. In all cases, Davies Financial Advisors or the advisor will send, or will cause to be sent, all such proxy and legal proceedings information and documents it receives to the client, so that the client may take whatever action the client deems advisable under the circumstances.

## Item 18 – Financial Information

Some Davies Financial Advisors' advisors, when providing Individual Financial Planning Services or Retirement Plan Consulting services to clients may require prepayment of more than \$1,200 in fees six (6) months or more in advance. Davies Financial Advisors maintains custody of certain client assets in certain instances, as defined in SEC Rule 206(4)-2. Additionally, pursuant to the trading authorization granted by Davies Financial Advisors managed account clients to Davies Financial Advisors and their advisor, Davies Financial Advisors has discretionary trading authority over the funds and securities of clients.

Davies Financial Advisors neither has a financial commitment that would impair its ability to meet its contractual and fiduciary commitments to clients, nor has Davies Financial Advisors been the subject of a bankruptcy proceeding.