

## General Information and Disclosure Statement

THIS DOCUMENT HAS BEEN FILED WITH THE ARIZONA CORPORATION COMMISSION SECURITIES DIVISION AND IS GIVEN TO EACH NEW PERSPECTIVE CLIENT AS REQUIRED BY ARIZONA RULE R14-6-205 AND IS USED IN CONJUNCTION WITH PART II OF FORM ADV FILED WITH THE SECURITIES AND EXCHANGE COMMISSION.

As an integral part of its services, PROFOCUS INCORPORATED provides general advice regarding investments. Therefore, the firm is licensed with the Arizona Corporation Commission as a Registered Investment Advisor. This disclosure statement is provided in accordance with Rule 204-3 under the Investment Advisors Act of 1940. We will provide you with a copy of our Form Adv Part II upon request.

This disclosure statement provides a potential Client with an understanding of PROFOCUS INCORPORATED and its approach to investment advice, portfolio construction, asset allocation and financial planning. This disclosure statement also includes information about the experience and education of the firm's key personnel, the firm's methods of compensation and the disclosure of possible conflicts of interest.

The Client's Client Engagement Letter is an integral part of this Disclosure Statement and is incorporated by reference. This disclosure statement should be read in its entirety prior to entering into an agreement with PROFOCUS INCORPORATED.

### OUR MISSION

To Organize You Financially! To provide the highest quality financial advice tailored to your specific objectives. To help you make prudent financial decisions in order to grow your assets and preserve your legacy.

### ABOUT PROFOCUS INCORPORATED

Our Commitment and Responsibility to our Clients guides ProFocus Incorporated. Our work requires a relationship of trust and confidence. We understand that our work as a Registered Investment Advisor and CERTIFIED FINANCIAL PLANNER<sup>™</sup> will affect our Clients' destinies. We help our Clients achieve financial independence, educate their children, enjoy a secure retirement and/or leave a lasting legacy to their heirs as well to society. ProFocus Incorporated is committed to continuing education, with the objective of providing the highest quality financial advice possible.

ProFocus Incorporated provides assistance in the planning of a Client's overall financial affairs. The firm serves as Financial Advisor and Planner for individuals, corporations, entrepreneurs, small businesses, professional athletes and entertainers. ProFocus Incorporated works with the Client and their other advisors, providing Investment Advice, Financial Planning Consultation and overall coordination on a personal basis.

The three major components of our Personal Financial Services are:

- **Financial Planning Services**, which includes initial financial advice and miscellaneous financial advice. The advice is based on extensive data gathering, of any and all information that would affect the Client's current financial situation and future goals, all of which is the responsibility of the Client to provide. This is the most important and time-consuming step in the Financial Planning Process. As a part of the initial advice, the advisor will help the Client design and construct an initial investment portfolio.  
*(Note: If the Client wants ongoing Asset Management Services, this is part of the next component listed as Asset Management Services).*
- **Asset Management Services, Investment Supervisory and Portfolio Construction**, which include the design, construction and management of an investment portfolio, consistent with the Client's financial constraints, objective, time horizon, risk tolerance and prevailing economic conditions. The development of a portfolio is done initially as part of the financial planning. However, ongoing **Asset Management Services / Investment Supervisory** are recommended as it is usually in the Client's best interest.
- **Plan Implementation Services**, includes the use of financial products for the purpose of implementing and achieving the Clients goals and objectives. It is important for the Client to realize that, while the planner is committed to the best interest of the Client, that as a result of this process the planner may receive a commission for some of these services, and therefore a Conflict Of Interest may exist.

## **FINANCIAL PLANNING SERVICES**

**Financial Planning Services** involve reviewing the Client's financial affairs, creating a financial plan, and aiding the Client in implementing agreed upon recommendations. The process begins with an initial consultation, at no charge. The purpose is to determine if the Client can benefit from Financial Planning and to what extent our services are needed. Before the Client can be obligated to pay any kind of fees, Client and advisor will take time to understand one another needs, and come to agreement on the scope of the planning and the fees to be charged. Both parties then sign the **Engagement – Ongoing Services Letter**.

Financial Planning requires a clear understanding of the Client's current situation. Areas of examination include assets, liabilities, income, expenses, potential federal/state income and estate taxes, trust agreements, will, investments, insurance, personal and family obligations and employee benefits programs. The Client is expected to provide complete information in all relevant areas.

The various financial planning issues of concern to the Client and our recommendations are discussed orally and in writing, in a series of meetings with the Client. Upon agreement regarding specific recommendations and approval by the Client, an agreed-upon course of action is implemented.

All information and recommendations furnished by ProFocus Incorporated to the Client and all information furnished by the Client to ProFocus Incorporated, ***Shall At All Times Be Held In Confidence***, and ***Shall Not Be Disclosed To Third Persons*** except as required by law or with the prior consent of the Client.

## **FINANCIAL PLANNING PHILOSOPHY**

Most people can profit from assistance in managing their financial affairs. Not all people need to have a written Personal Financial Plan. Everyone, however, can benefit from the Financial Planning Process, a procedure designed to find alternative solutions to specific financial problems as well as to promote more efficient management of one's financial affairs.

Proper Financial Planning identifies specific goals and objectives. The process requires a complete review of a Client's Assets, Retirement Benefit Programs, Insurance Contracts, Potential Income and Estate Taxes, Wills and Trust Agreements, and other related matters.

We believe the Financial Planner who gives financial advice should become actively involved in implementing the recommendations approved by the Client. The best thought-out plan is no more than an expensive academic exercise unless it leads to action. ProFocus Incorporated takes pride in providing high-quality, intense personal service in helping Clients achieve their financial objectives.

## **INITIAL FINANCIAL PLANNING SERVICES**

Initial Financial Planning focuses on ways to achieve Clients' personal goals such as funding children's college education, achieving financial independence, and providing adequate funds for dependents in the event of premature death.

Our goal is to determine the optimum course of action for the realization of Client financial planning objectives, taking into consideration Client needs, earning power, financial resources, and particular aversion to risk.

Clients are provided with personalized oral financial planning advice that is designed to help them identify, prioritize and achieve their financial goals in all relevant areas. Such advice normally involves the development of specific strategies, alternatives and integrated solutions.

## **ONGOING FINANCIAL PLANNING SERVICES**

After the initial planning process, the Client's goals and economic conditions continue to change. Tax law revisions, inflation rate changes, interest rate fluctuation and changes in investment mediums, combined with changes in the Client's personal situation, require that Financial and Tax Planning be an ongoing process.

ProFocus Incorporated offers ongoing Financial Planning and Goal Tracking for periodic review, and revision of the major components of a Client's Financial Plan to help assure that goals are being achieved. These services are performed at least annually because it is extremely important for the planner to review even the smallest changes in the Client's future financial situation. If a Client does not believe that much if anything has changed

in their personal financial situation, then procrastinates or even refuses to participate in even the most basic review of the plan, the planner cannot be (and is not) held responsible, if the plan has not been adequately reviewed and updated. We strongly encourage review of the plan at least annually and in some cases semi-annually. Ongoing Financial Planning Services are available to all Clients who have completed the initial Financial Planning Process.

***Ongoing Financial Planning*** does not include the ongoing monitoring, management, review or surveillance of investments or other assets on an automatic basis. These services, which are offered separately, are part of **Ongoing Investment Supervisory / Management Services**, for which a fee is charged.

However, as stated above, to encourage review of the Portfolio at least annually, ProFocus Incorporated will perform one hour of annual review each year, at no cost to the Client, for all Clients who have entered a contract the previous year.

## **MISCELLANEOUS FINANCIAL ADVICE**

Miscellaneous Financial Advice may be requested without Comprehensive Financial Planning Services for specific financial concerns of limited scope, at the hourly rate stated in the Client Engagement Letter. For example, evaluating the feasibility of purchasing a new home or generic advice on existing investment portfolios would fall into this category.

## **ASSET MANAGEMENT SERVICES / INVESTMENT SUPERVISORY and PORTFOLIO CONSTRUCTION**

This service is designed for those Clients who have already started the financial planning process, or who specifically desire **Asset Management Services / Investment Supervisory**. These may include Individual Clients, Pension Plans or Trusts. These services include the design and construction of an investment portfolio consistent with Client financial constraints and objectives, time horizon, risk tolerance and prevailing economic conditions, and continued management of the portfolio.

Asset Allocation helps us determine what types of assets to include or exclude from the portfolio and in what proportion those asset types should be held. We design "balanced" investment portfolios. No two portfolios are alike. The funds of all portfolios are allocated to several different asset classes, including cash and cash equivalents, various types of fixed income securities and equities. Also, various management styles and levels of risk concerning equity and other investments are considered. We at ProFocus Incorporated believe, primarily (but not exclusively), in a Buy-and-Hold Strategy for the long-term accumulation of funds.

## **INITIAL ASSET ALLOCATION**

ProFocus Incorporated analyzes the Client's current investments and makes recommendations regarding the retention, purchase or sale of investments. As far as possible, we attempt to move the Client's portfolio toward the strategy which we believe would be most appropriate for the goals and risk aversion of the particular Client. Some Clients may have certain beliefs regarding Portfolio Management which we do not share. This is neither right nor wrong, however, in such a situation we would not be able to help that Client or be responsible for that Client's results.

## ONGOING ASSET ALLOCATION AND MONITORING

ProFocus Incorporated constantly monitors the economic environment and is available to assist the Client in making investment decisions regarding the Client's investment portfolio. We actively manage the Client's investment portfolio *with the Client's input*. Also, we do not *hold, take custody of or have Client's assets directed to the Advisor* at any time (except for the payment of fees).

The Client's Investment Portfolio will be reviewed and re-evaluated during the year. ProFocus Incorporated will assist in implementing any mutually agreed upon changes. The Client acknowledges that risk is involved in any investment and that any investment may or may not perform as expected.

## INVESTMENT PHILOSOPHY

The major guidelines adhered to by ProFocus Incorporated in recommending Investment Advice and Strategies are:

**Recognition of Risk:** An investment strategy must be based upon an understanding of both the risk of capital loss (market risk), and the risk of purchasing power loss (inflation risk). Risks associated with an inordinate lack of liquidity, fluctuations in the cost of money and the possibility of a decrease in the overall price level must be addressed. In addition, we believe it is important to minimize the volatility of the total portfolio.

**Balance of Assets:** Proper investment planning requires a balanced approach, with due consideration to short and long term liquidity needs, the blending of lower and higher risk approaches, and the combination of income and growth-oriented investments.

**Total Return:** In the Portfolio Construction Process, we focus on total return, which is current income plus growth in value. If current income is needed on a regular basis to meet living expenses, those funds may be obtained either from investment income or from selling a portion of the asset growth.

**Economic Considerations:** Current and anticipated economic cycles and macro-economic changes are monitored in order to allocate portions of the Client's investment assets into areas of future growth. We believe successful investment performance is primarily a function of proper Asset Allocation and consistent portfolio performance, rather than asset timing or specific investment selection.

**Diversification:** There are no simple answers to investment decisions in our volatile economy. We believe diversification in a variety of investment vehicles is essential to balancing risk.

**Discipline:** Investment Planning requires a disciplined approach. Short-Term emotional decisions often defeat a well-designed investment program. The investor must feel comfortable with a Long-Term Investment Philosophy that is designed to achieve results over a full investment cycle.

**Income Tax Considerations:** Income tax considerations are important in Investment Planning. However, it is essential to recognize that economic return is of prime importance. Income tax considerations may not be the primary consideration in investment decisions. Proper tax planning requires a long-term view of tax reduction and deferral rather than a "quick-fix" at year-end.

## **PLAN IMPLEMENTATION PROCESS**

The Plan Implementation Process quite often includes the use of financial products for the purpose of implementing the Clients goals and objectives. It is important for the Client to realize that, while the planner is committed to the best interests of the Client, because of this process the planner may sometimes receive commissions for this service. It is also important to understand that, while it may make the most sense for the Client to have the planner who did the plan also perform the implementation, the Client is not required to use the planner's products in the process of Plan Implementation. *You, the Client, are not required to purchase financial products from the planner who prepared your plan, in order to implement your plan.*

When implementing securities transactions, ProFocus Incorporated uses the services of Charles Schwab & Company, Inc. to place investment orders and transactions. Charles Schwab & Co., Inc. has been in the financial services business since the early 1970's. It is independently owned and not affiliated with any product supplier or vendor.

When implementing insurance transactions, ProFocus Incorporated is licensed with many quality companies such as Jackson National Life, Principal Financial Group, United Healthcare and any number of other quality companies, all of which are used as specialized products to help meet the specific needs of each individual Client.

## **FEES**

For general **Financial Planning Services**, there is an initial Comprehensive Financial Planning Fee. The amount of the fee will depend on the complexity and scope of the Client's needs. This initial fee is based on, an estimated number of hours the advisor will need to do proper planning, together with the advisors hourly rate of \$275.00. This initial fee must be agreed upon by both the Client and the advisor, and recorded in the Client Engagement Letter, *before any fee will be charged.*

Full service financial planning advice is charged for on a fixed fee basis, agreed upon by the Client and the Advisor. Advisory fees will range from \$200 to \$12,000 depending on how extensive the Clients needs may be. Fixed Planning Fees are payable up front (upon signing the Client Engagement Letter).

For **Asset Management Services / Investment Supervisory Services**, Clients will be charged an annualized asset management fee of  $\frac{1}{2}$  of 1% to 2 $\frac{1}{2}$ % per year of the value of assets under management with a minimum of \$75.00 per quarter per client. The fee is payable quarterly, with the first payment due at the beginning of each calendar year quarter following the execution of the Client Engagement Letter. Fees will be based on the closing assets balance held in the account on the last day of the previous quarter.

Annualized asset management fees will be deducted directly from the account and pro-rated from the date the contract is signed to the next calendar quarter. Consequently, the first advisory fee will be pro-rated from the past quarter.

Clients may also incur charges by third parties other than those imposed by the Investment Advisor. These fees may include, but are not limited to all transaction costs, normal brokerage account trading fees, and surrender charges on some previously purchased mutual funds fees.

*Clients Are Under No Obligation To Select Any Broker Dealer Or Insurance Company For The Implementation Of Any Planning Service Recommendations Or Advice.* However, should Clients utilize the services of the Advisor in his capacity as a registered investment advisor or insurance agent he will receive a hourly or flat fee, ongoing management fees, usual and customary commissions or any combination thereof.

The Client or the Advisor may terminate the relationship at any time by notifying the other party by certified mail.

For **Plan Implementation Services**, there are no charges when it is part of the original Financial Plan. However, it is important to understand that the Planner may receive a commission from the implementation of financial products. If there is no commission on certain products or services there may be an hourly fee.

All services other than those listed above will be billed at an hourly rate of \$275.00. Consulting fees outside of the initial startup fee will be payable monthly in arrears.

## **POSSIBLE CONFLICTS OF INTEREST**

The performance of any professional service involves certain Conflicts Of Interest that are sometimes unavoidable. It is the duty of the professional in delivering these services to disclose these conflicts and to minimize them to the fullest extent possible.

It is important to understand that the traditional method of compensation for the majority of financial products in the past and for the most part, still today, has been commissions. Therefore, some potential Conflicts Of Interest we may face are unavoidable.

While we at ProFocus Incorporated are concerned about the inherent Conflict Of Interest in commission-only compensation, it is also true that in most cases commission is absolutely unavoidable, as it is built into most financial products in one form or another. While ProFocus Incorporated is committed to Fee-Based planning and using the best products available to meet our Client's needs, we feel that it is not in the Clients best interest to promise to use only non-commission products, which may not best match the Client's needs, and then raise our rates to compensate.

ProFocus Incorporated can and does effect insurance transactions for commission compensation as broker or agent for Clients, when that product best fits the needs of the Client. However, ProFocus Incorporated is committed to the use of products that are in the Client's best interest, therefore a product's commission will be taken into account to determine appropriateness for a Client's needs, but it will not be the deciding factor, nor should it be. Again, while ProFocus Incorporated can receive a commission because of

its Plan Implementation Services, it is intended that our primary source of compensation be the fees charged.

Michael M. Smith CFP®, is a life and disability insurance representative. These licenses are held to affect Financial Advisory and Implementation Services for Clients, not for the sole purpose of transacting securities or insurance business.

Associates of the Firm may from time to time have positions in securities that Clients may also own. Recommendations to Clients may differ from Client to Client due to the unique circumstances relating to each Client.

## **STAFF AND OUTSIDE ADVISORS**

Michael M. Smith CFP®, the president of ProFocus Incorporated, is a well-trained CERTIFIED FINANCIAL PLANNER™ capable of providing sound Financial Advice to his Clients. ProFocus Incorporated also utilizes outside advisers when necessary.

## **EDUCATION AND BACKGROUND OF KEY PERSONNEL**

Michael M. Smith CFP®, has been in the financial services industry since 1982 and began his practice as an Investment Manager / CERTIFIED FINANCIAL PLANNER™ in January of 1996. The CFP Board of Standards and Practices currently licenses him to use the CERTIFIED FINANCIAL PLANNER™ and CFP® marks. He is an active member of the Financial Planning Association (formerly known as the Institute of Certified Financial Planners), and is listed on the FPA's Registry of CFP® Licensed Practitioners. ProFocus Incorporated is licensed with the Arizona Corporation Commission Securities Division as a Registered Investment Advisor. Michael M. Smith, CFP®, is also very active locally promoting high standards of conduct, technical knowledge and professionalism in the industry. Smith has served on a number of committees as well as being Treasurer for the City of Phoenix Industrial Development Authority Board for over five years.

## **THE CERTIFIED FINANCIAL PLANNER™ DESIGNATION / CFP® MARK**

The CERTIFIED FINANCIAL PLANNER™, CFP® and federally registered CFP (with flame design) marks (collectively, the "CFP® marks") are professional certification marks granted in the United States by Certified Financial Planner Board of Standards, Inc. ("CFP Board").

The CFP® certification is a voluntary certification; no federal or state law or regulation requires financial planners to hold CFP® certification. It is recognized in the United States and a number of other countries for its (1) high standard of professional education; (2) stringent code of conduct and standards of practice; and (3) ethical requirements that govern professional engagements with clients. Currently, more than 62,000 individuals have obtained CFP® certification in the United States.

To attain the right to use the CFP® marks, an individual must satisfactorily fulfill the following requirements:

- Education – Complete an advanced college-level course of study addressing the financial planning subject areas that CFP Board's studies have determined as

necessary for the competent and professional delivery of financial planning services, and attain a Bachelor's Degree from a regionally accredited United States college or university (or its equivalent from a foreign university). CFP Board's financial planning subject areas include insurance planning and risk management, employee benefits planning, investment planning, income tax planning, retirement planning, and estate planning;

- Examination – Pass the comprehensive CFP® Certification Examination. The examination, administered in 10 hours over a two-day period, includes case studies and client scenarios designed to test one's ability to correctly diagnose financial planning issues and apply one's knowledge of financial planning to real world circumstances;
- Experience – Complete at least three years of full-time financial planning-related experience (or the equivalent, measured as 2,000 hours per year); and
- Ethics – Agree to be bound by CFP Board's *Standards of Professional Conduct*, a set of documents outlining the ethical and practice standards for CFP® professionals.

Individuals who become certified must complete the following ongoing education and ethics requirements in order to maintain the right to continue to use the CFP® marks:

- Continuing Education – Complete 30 hours of continuing education hours every two years, including two hours on the *Code of Ethics* and other parts of the *Standards of Professional Conduct*, to maintain competence and keep up with developments in the financial planning field; and
- Ethics – Renew an agreement to be bound by the *Standards of Professional Conduct*. The *Standards* prominently require that CFP® professionals provide financial planning services at a fiduciary standard of care. This means CFP® professionals must provide financial planning services in the best interests of their clients.

CFP® professionals who fail to comply with the above standards and requirements may be subject to CFP Board's enforcement process, which could result in suspension or permanent revocation of their CFP® certification.

Michael M. Smith CFP®, assists Clients in the areas of Investment Advice and Personal Financial Planning. His overall focus is on helping individuals achieve greater control over, and improved performance in, their financial affairs.

Michael M. Smith CFP®, was born in 1958 in Charlottesville, Virginia, where he grew up. After high school, he joined the United States Air Force and was honorably discharged after achieving the rank of Sergeant. Mr. Smith worked in the insurance industry as a senior agent from 1982 until 1999, specializing in all areas of financial planning. He is personally dedicated to continuing his education in the area of Financial Planning, as a way to ensure the best possible service to Clients. He earned his Bachelor of Arts Degree in Business Administration from the University of Phoenix in 1986, and completed the College of Financial Planning Professional Education Program in 1994.

## OUTSIDE ADVISORS

ProFocus Incorporated recognizes that proper Financial Planning requires a high degree of specialization in certain areas. Therefore, ProFocus Incorporated maintains relationships with outside specialists and consultants in many areas. Such outside advisers include Attorneys, Certified Public Accountants, Insurance Specialists, Securities Brokerage Firms, Qualified Plan Benefit Consultants, and Real Estate Specialists. Other sources of financial information are financial newspapers and magazines, research materials prepared by others, online investment services, corporate rating services, continuing education courses and seminars.

All Clients are encouraged, at all times, **to ask any questions they feel have relevance** to their financial situation or to the Advisor's ability to adequately service their financial needs. We at ProFocus Incorporated believe that a highly personal and long-term relationship is vital to be able to help each Client meet their individual goals and needs. We want to take the time necessary to help each Client understand and feel comfortable with every aspect of what is necessary to achieve their Financial Goals and Needs.

By signing and dating below, you are indicating that you have both **read** and **understand** the content of this Disclosure Statement, and also that you have been given a copy of this Disclosure Statement for your own records.

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Client

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Print Client's Name

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Date

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Client

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Print Client's Name

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Date