

Item 1 - Cover Page

The Hogan-Knotts Financial Group, Inc.

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Red Bank, NJ 07701

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[www.hkfg.biz](http://www.hkfg.biz)

March 31, 2017

This brochure provides information about the qualifications and business practices of The Hogan-Knotts Financial Group, Inc. If you have any questions about the contents of this brochure, please contact us at [plan@hkfg.biz](mailto:plan@hkfg.biz), or 732-842-7400. 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.

The Hogan-Knotts Financial Group, Inc. is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about The Hogan-Knotts Financial Group, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This brochure dated March 31, 2017 is materially the same as the March 30, 2016 document.

The Hogan-Knotts Financial Group, Inc. manages all client assets on a discretionary basis. As of December 31, 2016 total assets under supervision and management, spread over 254 separately managed and reported on client portfolios, were \$209,685,221.95.

There are no other material changes.

In the future, this item will discuss only specific material changes that are made to the brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our brochure may be requested by contacting Timothy A. Knotts, CFP®, Principal and Chief Compliance Officer at 732-842-7400 or [t.knotts@hkfg.biz](mailto:t.knotts@hkfg.biz).

Additional information about The Hogan-Knotts Financial Group, Inc. is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with The Hogan-Knotts Financial Group, Inc. who are registered, or are required to be registered, as investment adviser representatives of The Hogan-Knotts Financial Group, Inc.

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## Item 4 – Advisory Business

The Hogan-Knotts Financial Group, Inc. is a private, independent, financial planning and wealth management business, the prodigy of a firm established in 1971 and incorporated in 1979. We offer conservative financial advice, counseling and investment management to a select group of individuals, multi-generational families and businesses; trusts, estates and a few charitable entities; along with the pension plans, profit sharing plans and 401(k) plans of our business owner clients. Clients of our office want a high degree of financial expertise, a higher level of service than they are accustomed to, and who feel comfortable delegating the solving of their financial problems to an organization of credentialed, professional financial advisors.

The Hogan-Knotts Financial Group, Inc. is headed by two principals – Robert E. Hogan, CFP® and Timothy A. Knotts, CFP® – with over 60 combined years of financial planning experience. Mr. Hogan has been a CERTIFIED FINANCIAL PLANNER™ practitioner since 1987, and Mr. Knotts has been a CERTIFIED FINANCIAL PLANNER™ practitioner since 1989 (see section 10 for further explanation of the minimum qualifications required for this designation). We have seen many competitors come and go while remaining independent from any brokerage house or Wall Street firm. We are not tied to any financial institution and do not “carry the torch” for any of them. This allows us to put our client’s interests first and act as true fiduciaries. Clients will not have to worry about any of our recommendations. Our advice and counseling is never backed by any “hidden agenda” for any particular financial service or product. We believe the financial planning process is an end in and of itself, not a means to an end as practiced by others.

Our one and only office has been located in Red Bank, New Jersey for over 35 years in the same 100+ year old Victorian home, converted into comfortable, professional office space. Our staff of REGISTERED PARAPLANNER<sup>SM</sup> (see section 10 for further explanation of the minimum qualifications required for this designation) and CERTIFIED FINANCIAL PLANNER™ practitioners are prepared to offer our clients a “high-touch” level of service while assisting them in meeting their financial goals. They specialize in taking action and making sure things happen.

The Hogan-Knotts Financial Group, Inc. is focused on building long-term relationships. We are professionals, with professional designations, affiliations, and attitudes; enabling us to easily work with our client’s other professionals. We don’t compete with our client’s attorneys, accountants and retirement plan administrators, but work with them as part of a total team effort for our clients. It is our desire to make our clients proud to be associated

with us. Our goal is to understand the things that mean the most to our clients and help them to successfully position themselves to reach their goals.

The Hogan-Knotts Financial Group, Inc. engages in financial planning as a process for our clients in the manner delineated by the Certified Financial Planning Board of Standards, Inc.

We begin by establishing and defining the client-planner relationship. We clearly explain and then document in a written agreement the services to be provided to our clients and define both their and our responsibilities. The agreement explains fully how and when we will be paid.

The next steps in the process are gathering client data, determining specific financial goals and objectives, and trying to understand a client's tolerance for fluctuations in the value of a portfolio of investments (their tolerance for risk). We will ask clients to both verbalize and document information about their financial situation. They may be asked to complete a detailed "data gathering package". The client and a lead planner from our office will mutually define the client's personal and financial goals, understand their time frame for results and discuss how they feel about "risk". Our office will gather many necessary documents before giving out any advice or direction. This step of the process may take weeks or months to complete.

We will then analyze and evaluate a client's current financial status. We will look at all of the information gathered to assess a client's current situation and determine what they must do to meet their goals. Depending on what specific goals and objectives they are trying to achieve this could include analyzing their assets, liabilities and cash flow; current allocation of investments and their coordination with their goals, objectives and their perceived tolerance for risk; plans for retirement and the methodology for getting there; capital needs coverage in the case of disability, death or long-term care; college funding for children or grandchildren; estate distribution plans; income and estate tax strategies. Because of our lack of expertise, although important to the overall plan, we WILL NOT examine or make specific recommendations on client's property & casualty insurance, or their health insurance. We recommend that clients consult with their agents in examining this part of their plan, keeping us "in the loop" on recommendations and documentation.

The next part of the process is developing and presenting financial planning recommendations and/or alternatives to the client. The lead planner will offer financial planning recommendations that address the client's goals, based on the information the client has provided. We go over those recommendations with each client in a formal presentation at our office to help them understand and so that they can make informed decisions. At this point we pause to listen to our client's concerns, collect more data and

information, update our assumptions and revise the recommendations as appropriate. The client and the lead planner come to an agreement on how the recommendations will be carried out. The planner may carry out the recommendations or serve as the client's "coach," coordinating the whole process with the client and other professionals such as attorneys, CPAs, or insurance agents (life, health, p&c). However, whether implementing the financial planning ourselves, or acting as a "coach", we want to maintain a high level of contact and "touch" with our clients, including being involved in meetings with other professionals and reviewing documents and/or recommendations that occur outside of our office.

Financial planning is a dynamic process, one that requires monitoring, updating and revising on a regular basis. Recommendations need to be adjusted based on changes in goals & objectives, family situations, changes in risk tolerance, job situations, inheritances, etc... It is our desire that we meet with our clients on a regular basis, but not less than annually to monitor the financial planning recommendations and implementation. Some clients will need to be met with quarterly; others no more than semi-annually. It is up to the client to make sure that they are meeting with us on a regular basis to update their plans.

In addition to the overall financial plan, we will also be providing oversight and stewardship to every client's investment portfolio – the engine that drives the financial plan. In most cases a written review of the client's portfolio is provided quarterly. In some cases the portfolio receives a written review annually at calendar year-end. In all cases, the investment portfolio is reviewed in-house on an every three-month basis.

The Hogan-Knotts Financial Group, Inc. calls this part of the financial planning process "Portfolio Management Services". This is defined as giving continuous advice to a client or making investments for a client based on the disclosed financial goals and objectives of the client. The applicant offers this service to individuals, qualified plans, trusts, estates, and corporations.

The Hogan-Knotts Financial Group manages advisory accounts on a discretionary basis, but only after creating an individualized written statement of investment policy (SIP) for each portfolio (a portfolio being a number of related investment accounts for one client that are guided by related financial goals). The client will be asked to participate in the creation of the SIP, and then to sign this investment policy (usually after the lead planner has verbally presented the policy and asset allocation recommendations to the client in our office).

This statement of investment policy (SIP) is created after discussing with each individual client their financial goals and objectives, their time-frame till capital may be required to be distributed, their tolerance for fluctuations of principal value in the portfolio, and having an

interactive session in our office looking at individual asset groups, their long-term average annual rates of return, and their “risk” – defined as the propensity for the average annual return of an investment asset class to fluctuate around a mean, and usually quantified as one standard deviation.

Portfolio supervision is guided by the principal of asset allocation and quarterly rebalancing, with an investment “mix” determined and guided by the stated objectives of the client (i.e. maximum capital appreciation, growth, income, or growth and income). That individual objective, and the strategy for achieving that objective, is documented and presented in every Portfolio Management Services report that is created and delivered to the client (either quarterly or annually).

It is the job of the lead planner for each client, most on a quarterly basis, to rebalance each client’s portfolio so that it is better aligned with each portfolio’s SIP. This is done in the context of the taxability status of each portfolio, balancing taxable gains and losses in a taxable portfolio, and keeping in mind tax-loss-carry forwards that the client may have from previous tax years. However, since every portfolio is managed on a discretionary basis, we will execute rebalancing transactions on a regular basis without further client input, following the agreed to and documented strategy, to meet the portfolio’s stated objective.

The Principals of the Hogan-Knotts Financial Group, Inc. establish general policy as to financial planning and investment advice rendered to each client. All Principals, Junior Advisors, Service Team Advisors and Team Leaders in the office must be involved in some form of related continuing education in financial planning and investment advising, and be a CERTIFIED FINANCIAL PLANNER™ practitioner. Minimal continuing education requirements of 15 hours per year are generally expected to be exceeded. All Team Members, the entry level position in our office, must also be involved in some form of related continuing education in financial planning and investment advising, and be a REGISTERED PARAPLANNER<sup>SM</sup> practitioner. Minimal continuing education requirements of 8 hours per year are generally expected to be exceeded.

While generally discouraged, clients may impose restrictions on investing in certain securities or types of securities. It is up to the client to relay this information to the lead planner at the beginning of the relationship. This usually relates to the maintenance of “legacy securities”, or those investments that have been transferred over to under our management from a previous investment relationship.

The Hogan-Knotts Financial Group, Inc. does not participate in *wrap fee programs*.

The Hogan-Knotts Financial Group, Inc. manages all client assets on a discretionary basis. As of December 31, 2016 total assets under supervision and management, spread over 254 separately managed and reported on client portfolios, were \$209,685,221.95.



## Item 5 – Fees and Compensation

All fees are subject to negotiation.

The annual fee charged for investment supervisory services will range from 1.25% to 0.25% (one and one-quarter percent to one-quarter of one percent) of assets under management. The specific manner in which fees are charged by The Hogan-Knotts Financial Group, Inc. is established in each individual client's written agreement with The Hogan-Knotts Financial Group, Inc. Discounts are offered to family members of employees, related professionals, and long-term (10 years or greater) clients who meet certain wealth accumulation criteria.

The Hogan-Knotts Financial Group, Inc. will generally bill its fees on a quarterly basis. Clients are billed in arrears each calendar quarter. The Hogan-Knotts Financial Group, Inc. directly debits fees on a quarterly basis from client accounts, which they must authorize at the beginning of the relationship and the establishment of the account. Fees billed, once collected, are generally non-refundable. Clients may terminate the relationship at any time by written notice. No more fees will be billed after the calendar quarter ending after receipt of termination notification.

Management fees are prorated for each capital contribution and withdrawal made during the applicable calendar quarter (with the exception of de minimis contributions and withdrawals). Accounts initiated or terminated during a calendar quarter will be charged a prorated fee as well. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable. If the account that the fee was to be debited against has been closed, liquidated or transferred then the fee will be paid by a separate check from the client.

The Hogan-Knotts Financial Group, Inc.'s fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer, margin interest and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus.

Such charges, fees and commissions are exclusive of and in addition to The Hogan-Knotts Financial Group, Inc.'s fee, and The Hogan-Knotts Financial Group, Inc. shall not receive any portion of these commissions, fees, and costs.

The basic fee schedule for financial planning and analysis is non-negotiable and is based on the amount of time to complete the work and the hourly rate of the staff members completing the work. The hourly rate schedule for each staff member is as follows:

Planner: \$225

Paraplanner: \$100

Fees are generally not refundable and are paid in arrears. Clients may terminate the relationship at any time and will be billed for any time and charges not yet paid. Fees are billed after work is completed. Meticulous time records are maintained for the work that has been performed, and the time spent by each staff member working on a client's financial plan. A detailed listing of time and charges are sent, with an invoice for payment, to clients monthly.

When choosing individual mutual funds for client portfolios The Hogan-Knotts Financial Group, Inc. generally uses only no-load/no commission, low expense ratio open-end mutual funds, closed-end mutual funds or exchange traded funds (ETFs). In using open-ended mutual funds The Hogan-Knotts Financial Group, Inc. has discretion in what funds to use. Generally, we choose the no-transaction-fee funds that are available for custody on the Schwab Institutional trading platform, always keeping in mind the fact that no sales of these funds, for any reason, can be made within 90 days of purchase or a transaction fee will be applied (transaction fees are paid to the custodian – Schwab in this example – and never to The Hogan-Knotts Financial Group, Inc.).

We generally use Schwab Institutional's "no transaction fee" (NTF) funds over those with a transaction fee, although with the transaction fee fund we may be able to get lower, institutional expense ratio pricing by simply using a different share class of the same fund. This is due to the fact that we generally "dollar-cost-average" client's cash into or out of the investment markets, over many months, and a transaction fee would be due every month for those purchase or sale transactions. In addition, we generally rebalance all client portfolios every quarter, and these sometimes "small" rebalancing transactions would also incur a transaction fee.

When, due to the fact that no other "approved" mutual fund is available, for diversification reasons, or the portfolio is large enough to absorb the transaction costs (which have a cap) without unduly affecting performance, a transaction fee mutual fund may be used at our

discretion. However, when using a transaction fee mutual fund, no purchases or sales will generally be executed unless the transaction fee (as a percentage of the purchase or sale) is less than 1.5% and it seems prudent to do so in the context of managing the portfolio at the time of the transaction.

Item 12 further describes the factors that The Hogan-Knotts Financial Group, Inc. considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

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

The Hogan-Knotts Financial Group, Inc. 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**

The Hogan-Knotts Financial Group, Inc. provides financial planning and portfolio management services to individuals, high net worth individuals, businesses, pension and profit-sharing plans, charitable institutions, foundations, endowments, estates & trusts.

Generally, we require a minimum of \$500,000 in manageable assets in order to establish a relationship with this office. There are, however, exceptions made. These exceptions are primarily for the children, grandchildren and other family members related to our already established client relationships.

An exception could also be granted for a relationship that starts out with less than the \$500,000 minimum, but there is a reasonable expectation that the assets under management, due to contributions, will be above the minimum in a reasonable amount of time. Exceptions are granted at the total discretion of The Hogan-Knotts Financial Group, Inc.

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

The Hogan-Knotts Financial Group, Inc. only manage serious money for the long-term: income portfolios with withdrawal rates of 4% or less; or accumulation portfolios with time frames of 6 years or more.

The Hogan-Knotts Financial Group does not generally analyze or advise on individual securities. We feel that, with all the institutional level money managers in the field of play there is just inherently too much risk in owning individual issues of stocks or bonds. Rather than compete against them we join them by using mostly institutionally managed accounts (REITS, mutual funds, ETFs and indexes). Also, individual issues attract commissions on buys and sells, and at the level of buying and selling we do for clients it would not be at “rock-bottom” institutional rates. In addition, individual issues have dramatic and sometimes unpredictable and unanticipated falls in value – this can be nerve-racking for clients.

There’s also too much analysis that must be done, which must be done too often. This is difficult to do as we do not have as much “access” and resources as institutional investors. We also feel with individual issues: there is a greater risk of panicky decisions and frequent trading; it is difficult to diversify between & within asset classes due to the size of the trade that would have to be executed; it’s more work – you really need to “re-buy” the portfolio every day; and splits & spinoffs make tracking cost basis much more difficult.

The Hogan-Knotts Financial Group does analyze and advise as to which investment company mutual funds and other money managers should be used in a client’s portfolio based upon a number of quantitative and qualitative criteria, including but not limited to published objectives and performance histories. The process for selecting these money managers and their funds is referred to in our office as the creation of the “approved list”.

To come up with an approved list, using data primarily collected and made available by Morningstar, Inc., we look at each mutual fund against its peer group as defined by a Morningstar or prospectus based investment category. We then examine a number of quantitative criteria, looking for mutual funds that are consistently at or better than the average in their peer group (no-load or no-commission; number of individual issues managed; concentration in one issue or industry; “draw-down in 1990, 2000-2002 and 2008 for stock managers; ability to adjust holdings without excessive transaction fees; turn-over ratio; total return or performance at or above peer group average; and primary manager tenure of at least 3 years to name but just a few).

In addition, we look at a number of qualitative criteria, again looking for “best-of-breed” behavior and processes (logical strategy for buys and sells; asset class or style “drift”; a clearly identifiable manager or managers at the helm with long tenure; and clear asset class delineation to name but just a few).

Finally, we attend due diligence review meetings put on by the investment management companies, participate on teleconferences and webinars put on by the investment management companies, and travel to industry conferences where representatives and the actual portfolio managers of these funds make presentations. We do all this in order to back up our basic research, confirm what we think we know, discover what we don’t know, and to (in many cases) speak directly with the portfolio managers we are choosing for our client’s investment portfolios. We are looking for consistent, above-average, qualitative and quantitative investment managers and indexes when compared against their peer group to put in client portfolios. To use a baseball analogy, we are looking for .300 hitters and trying to avoid the streaky home-run hitters (who grab a lot of headline attention but also lead the statistics in strike-outs as well).

After a portfolio objective is established and agreed upon, a strategy for getting to that objective is created. With that strategy an asset allocation plan for allocating client dollars into multiple investment asset classes is devised (see section 4 for more details on how that is done). Then, we populate that asset allocation strategy with approved list managed accounts (mutual funds, REITs, ETFs). We use the following tenants when putting managers in a client’s portfolio, or even when we need to draw down monies from those same accounts:

1. Diversify by investment style within stock asset classes – value, growth, & blend
2. Diversify by duration within bond asset classes – long, intermediate, & short
3. No more than 5% of any portfolio in any one investment position
4. Always at least two investments choices in each asset class
5. Rebalance back to the clients Statement of Investment Policy (SIP)

We seek a broad diversification among what are usually non-correlated asset classes. We always want to base investment group choices on financial goals, time frames for reaching those goals, and tolerance for the “swings” in the investment markets. We do not chase yields or “hot” investment categories. In the last 30+ years of managing client portfolios both Robert and Timothy have seen many “mutual fund du jour” pass in and out of favor.

The Hogan-Knotts Financial Group, Inc. manages client portfolios based on their SIPS, which are derived from client's underlying goals and objectives. Macro and micro economic events generally do not change client goals or objectives, so they don't change the client's asset allocation or what we are investing in either. Therefore, we don't "time" markets by getting in or out of specific asset classes based on economic conditions. The problem with trying to "time" the markets is we don't think anyone can do it consistently well over the long term. The big hurdle is that you have to be right twice: once when you get out of an asset class and once again when you get back in. We feel the risk is too great that you will miss-time one, or both of these events and cost the client either opportunity or actual portfolio principal in doing so.

The downside of this approach to investing is that a portfolio can sometimes be both in one of the best performing, as well as one of the worst performing, asset classes at the same time. On occasion, again over the short term, a client's portfolio could be in ALL the "wrong" asset classes at the same time (i.e. 1994 and 2008). We will not be getting a client out of an asset class using this strategy, so they will suffer over the short-term as this can affect portfolio performance negatively. However, over the long term, through quarterly portfolio rebalancing, we can take advantage of these negatively correlating asset classes and "sell high, buy low", which is part of our objective over the long term. What we end up doing is managing the "risk" in the portfolio through investment group choices and rebalancing; over the long term the return will follow.

By following these investment management tenets we can "flatten" out the fluctuation of the portfolio's principal around a mean, but by no means avoid the risk of falling portfolio values in declining investment market periods, especially when almost all investment asset classes are falling (i.e. 1994 and 2008). In usual circumstances a well-diversified portfolio (like we create for clients of our firm) will not experience declines to the same extent the rest of market is experiencing (either in the bond market or the stock market). This allows the portfolio, when markets recover, to start from a higher level. We call this long-term strategy "win by not losing".

However, the same flattening of fluctuation that helps to protect the portfolio on the downside has a negative effect on the upside – the portfolio will never experience gains to the same extent as the rest of the market is experiencing either. This is also exasperated by the mechanism of rebalancing the portfolio on a quarterly basis back to its strategy, or Statement of Investment Policy. We will always be selling out of a "best" performing asset class, sometimes sooner than the asset class hits its "peak", or maximum valuation in a cyclical up market.



We, as long-term investors, want to buy low and sell high. The problem is that we never know when the low is going to be “the low”, and the high is going to be “the high”. In our approach to managing client portfolios we take that “guess” out of the equation by rebalancing the portfolio on a regular, every three-month (quarterly) basis. However, by executing this strategy we will take dollars out of an asset class that continues to go up in value over the short term, and buy into an asset class that is continuing to go down over the short term (i.e. 1998 and 1999 – selling large-cap US stocks every quarter and buying securitized real estate in the form of REITs). Over the longer term, however, we believe that rebalancing allows us to capture alpha or growth in the portfolio (taking profits off the table), and that the managing of the risk of the portfolio outweighs any potential growth we are giving up by taking those profits “too” early.

We are also purchasing the services of an institutional level investment manager when we use a mutual fund in a client’s portfolio, not just buying the name of a fund. This is why we focus so much on looking at that particular manager’s past performance, tenure, and other aspects of their history. For this reason, when a manager leaves the helm of a fund, either due to death, retirement, or other circumstances, we are inclined (unless replaced by an equally or better qualified manager) to sell out of this position in a client’s portfolio. The disadvantage to following this strategy is that it may cause unexpected and penalizing capital gains that could be subject to taxation. This can be mitigated to some degree in the management of the portfolio through tax loss harvesting, and using tax loss carry forwards that the client may have accumulated from previous tax years. In managing a client portfolio, while we are always “tax aware”, we do NOT want to let the tax tail wag the investment management of the portfolio dog.

**Investing in securities involves risk of loss that clients should be prepared to bear.**

## **Item 9 - Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of The Hogan-Knotts Financial Group, Inc. or the integrity of The Hogan-Knotts Financial Group, Inc.'s management. The Hogan-Knotts Financial Group, Inc. has no information applicable to this Item.

## Item 10 – Other Financial Industry Activities and Affiliations

Robert E. Hogan, CFP®, and Timothy A. Knotts, CFP® are CERTIFIED FINANCIAL PLANNER™ practitioners through the Certified Financial Planner Board of Standards, Inc. The expectation of the office is that all employees, with the exception of our entry level staff (Team Member), will be CERTIFIED FINANCIAL PLANNER™ practitioners. 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 the 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.

Entry level staff in our office (Team Member) must be REGISTERED PARAPLANNER<sup>SM</sup> practitioners through the College for Financial Planning®. The College for Financial Planning® awards the REGISTERED PARAPLANNER<sup>SM</sup> AND RP® designation to students who:

- successfully complete the program;
- pass the final examination;
- complete the internship requirement; and
- comply with the Code of Ethics, which includes agreeing to abide by the Standards of Professional Conduct and Terms and Conditions. Applicants must also disclose of any criminal, civil, self-regulatory organization, or governmental agency inquiry, investigation, or proceeding relating to their professional or business conduct. Conferment of the designation is contingent upon the College for Financial Planning’s review of matters either self-disclosed or which are discovered by the College that are required to be disclosed.

Students must sign and return the Code of Ethics forms and Internship Verification Form within six months of passing the final exam. Failure to complete and submit the forms within this time frame may result in termination of the individual’s candidacy. If an individual wishes to apply for authorization to use the Marks in the future, he or she may be required to fulfill the initial designation requirements in place at the time of passing the exam.

Successful students receive a certificate and are granted the right to use the designation on correspondence and business cards for a two-year period.

Continued use of the RP® designation is subject to ongoing renewal requirements. Every two years individuals must renew their right to continue using the RP® designation by:

- completing 16 hours of continuing education;
- reaffirming to abide by the Standards of Professional Conduct, Terms and Conditions, and self-disclose any criminal, civil, self-regulatory organization, or governmental agency inquiry, investigation, or proceeding relating to their professional or business conduct; and
- paying a biennial renewal fee of \$75.

The Hogan-Knotts Financial Group, Inc. generally recommends that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. The Hogan-Knotts Financial Group, Inc. is independently owned and operated and not affiliated with Schwab. Schwab provides us with access to its institutional trading and custody services, which are typically not available to Schwab retail investors.

These services generally are available to independent investment advisors on an unsolicited basis, at no charge so long as a total of at least \$10 million of the advisor's clients' assets is maintained in accounts at Schwab Institutional. These services are not contingent upon an advisor committing to Schwab any specific amount of business (assets in custody or trading). Schwab's services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For The Hogan-Knotts Financial Group, Inc.'s client accounts maintained in its custody, Schwab generally does not charge separately for custody but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through Schwab or that settle into Schwab accounts. No commissions or security-related fees are paid to, or shared, with The Hogan-Knotts Financial Group, Inc.

## Item 11 – Code of Ethics

The Hogan-Knotts Financial Group, Inc. has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at The Hogan-Knotts Financial Group, Inc. must acknowledge the terms of the Code of Ethics annually, or as amended.

The Hogan-Knotts Financial Group, Inc. anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which The Hogan-Knotts Financial Group, Inc. has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which The Hogan-Knotts Financial Group, Inc., its affiliates and/or clients, directly or indirectly, have a position of interest. The Hogan-Knotts Financial Group, Inc.'s employees and persons associated with The Hogan-Knotts Financial Group, Inc. are required to follow our Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of The Hogan-Knotts Financial Group, Inc. and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for The Hogan-Knotts Financial Group, Inc.'s clients.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of The Hogan-Knotts Financial Group, Inc. will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of The Hogan-Knotts Financial Group, Inc.'s clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between The Hogan-Knotts Financial Group, Inc. and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an

aggregated basis when consistent with The Hogan-Knotts Financial Group, Inc.'s obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. The Hogan-Knotts Financial Group, Inc. will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the order.

The Hogan-Knotts Financial Group, Inc.'s clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Julie Pendell at [j.pendell@hkfg.biz](mailto:j.pendell@hkfg.biz), or by calling her at 732-842-7400.

It is The Hogan-Knotts Financial Group, Inc.'s policy that the firm will not affect any principal or agency cross securities transactions for client accounts. The Hogan-Knotts Financial Group, Inc. will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

## Item 12 - Brokerage Practices

Charles Schwab & Co., through its Schwab Institutional division, makes available to The Hogan-Knotts Financial Group products and services that benefit us but may not benefit our clients' accounts. Some of these products and services assist us in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of advisor's fees from its clients' accounts; and assist with back-office functions, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of applicant's accounts, including accounts not maintained at Schwab Institutional.

Schwab Institutional also makes available to us other services intended to help us manage and further develop our business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab may make available, arrange and/or pay for these types of services rendered to us by independent third parties. Schwab Institutional may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to us.

As a fiduciary we endeavor to act in our clients' best interests. However, our recommendation that clients maintain their assets in accounts at Schwab does accrue benefits to our business such as the availability of some of the foregoing products and services. By not basing that recommendation solely on the nature, cost or quality of custody and brokerage services provided by Schwab this creates a potential conflict of interest.

However, our and our client's relationship with Schwab goes back to 1991, and we feel comfortable with the nature, cost and quality of custody and brokerage services provided by Schwab. In addition, the cost savings to us in using one custodian for our client's accounts allows us to keep costs under control to our clients, and allows us to provide the level and amount of servicing to our clients that distinguishes us in our business practices.



### **Item 13 – Review of Accounts**

All accounts are under continuous review by the Principals of the office. Formal, comprehensive reviews for most clients are conducted every three months at the end of each calendar quarter. Reviews are conducted primarily by the Principals of the firm, with each Principal being responsible for reviewing approximately half of the clients, and half of the portfolios of the office.

Based on a schedule of review order created by the two Principals at the end of each calendar quarter, each portfolio review is initiated by a Client Service Team Member associated with that client in the office. Data transfer, reconciliation and initial commentary are created by a Client Service Team Member before being passed on to a Client Service Team Leader for accuracy checking, commentary completion and final review. The Principal, acting in the capacity of the Lead Planner, is ultimately responsible for final review before delivery of the report to the client.

Most portfolios, regardless of their size, are reviewed at the same level of scrutiny. There are some portfolios, usually with \$150,000 of assets or less, that a detailed report is completed only annually. All portfolios, however, are rebalanced against their Statement of Investment Policy at least annually. Those in excess of \$150,000 are usually rebalanced quarterly.

In most cases, a written report is furnished to a client at the inception of the relationship and at the end of every calendar quarter. This Portfolio Management Service report reflects the assets in the portfolio at the beginning of the calendar quarter, the end of the calendar quarter, and all activity that has occurred during that time inside the portfolio (contributions, distributions, buys, sells, and dividends to cash). Each report also reflects the objective of each individual portfolio, along with the strategy for meeting that objective, as explained to and agreed to by the client. The current asset allocation investment strategy is also included in each report, with an analysis of how far from the proposed allocation the portfolio is currently.

For many clients a quarterly in-person meeting to review the overall financial plan and the portfolio management services report is in order. For some clients this face to face meeting and review of financial planning and their portfolio is done semi-annually, with some only meeting annually. All clients should receive at least an annual face to face review of their report, and financial planning activities necessary to reach their financial goals and

objectives. It is up to each individual client to request their quarterly, semi-annual or annual review meeting.

A meeting prep, and a meeting debrief, appointment is put on The Hogan-Knotts Financial Group, Inc.'s group calendar prior to every client meeting. A Principal of the office, in the capacity of lead planner, along with a Client Service Team Leader, meet to review the client's file, financial planning activities completed to date, financial planning activities still to be completed, and additional data that needs to be gathered from the client to complete the financial planning review. An agenda is created, and action items for creating/updating financial planning analysis and projections are assigned. After the meeting the same team meets to debrief the meeting, and create action items for our office to complete or follow up on based on what transpired during the meeting.

Written portfolio management services reports are mailed, e-delivered through The Hogan-Knotts Financial Group, Inc.'s web site ("Advisor Vaults"), or delivered in person automatically and require no client request

From time to time The Hogan-Knotts Financial Group, Inc. may make an error in submitting a trade order on a client's behalf. When this occurs, The Hogan-Knotts Financial Group, Inc. may place a correcting trade with the broker-dealer which has custody of the client's account. If an investment gain results from the correcting trade, the gain will remain in the client's account unless the same error involved other client account(s) that should have received the gain, it is not permissible for the client to retain the gain, or we confer with the client and they decide to forego the gain (e.g., due to tax reasons). If the gain does not remain in the client's account and Charles Schwab & Co., Inc. ("Schwab") is the custodian, Schwab will donate the amount of any gain \$100 and over to charity. If a loss occurs greater than \$100, The Hogan-Knotts Financial Group, Inc. will pay for the loss. Schwab will maintain the loss or gain (if such gain is not retained in the client's account) if it is under \$100 to minimize and offset its administrative time and expense. Generally, if related trade errors result in both gains and losses in a client's account, they may be netted.

## **Item 14 – Client Referrals and Other Compensation**

The Hogan-Knotts Financial Group, Inc. may, from time to time, compensate either directly or indirectly, any person (defined as a natural person or a company) for client referrals. The Hogan-Knotts Financial Group is aware of the special considerations promulgated pursuant to Rule 206(4)-3 under the Investment Advisors Act of 1940. As such, appropriate disclosure shall be made, all written instruments will be maintained by The Hogan-Knotts Financial Group, Inc., and all applicable Federal and/or State laws will be observed.

Under all circumstances the client is billed exactly the same as they would have had they not been referred by a paid solicitor, and there is no diminishment of services by The Hogan-Knotts Financial Group, Inc. Fees for referrals are paid solely from the net income of the Hogan-Knotts Financial Group, Inc., and considered part of our marketing expenses. The amount of compensation is based on a rate and terms that are outlined under a separately negotiated contract with each individual solicitor.

A separate disclosure statement, in those limited circumstances where The Hogan-Knotts Financial Group has employed a paid solicitor, has been created and sent to the client for review and agreement. Those agreements are held on file here in the offices of The Hogan-Knotts Financial Group, Inc.

## **Item 15 - Custody**

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. The Hogan-Knotts Financial Group, Inc. urges clients to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 – Investment Discretion**

The Hogan-Knotts Financial Group, Inc. usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. This authority is granted by the client to The Hogan-Knotts Financial Group, Inc. using a Limited Power Of Attorney. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account, and further defined by the statement of investment policy (SIP) for each portfolio.

When selecting securities and determining amounts, The Hogan-Knotts Financial Group, Inc. observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, The Hogan-Knotts Financial Group, Inc.'s authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided by clients to The Hogan-Knotts Financial Group, Inc. in writing.

### **Item 17 – Voting Client Securities**

As a matter of firm policy and practice, The Hogan-Knotts Financial Group, Inc. does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios.

## **Item 18 – Financial Information**

Registered investment advisers are required in this item to provide you with certain financial information or disclosures about The Hogan-Knotts Financial Group, Inc.'s financial condition. The Hogan-Knotts Financial Group, Inc. has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.