

**THEORY FINANCIAL, LLC dba Theory Financial**  
**Form CRS Customer Relationship Summary, March 31, 2023**

<p><b>Firm Introduction</b></p>	<p>THEORY FINANCIAL, LLC is registered with the Securities and Exchange Commission (SEC) as an investment adviser. Brokerage and investment advisory services fees differ, and it is important for you to understand these differences. Free and simple tools are available to research firms and financial professionals at <a href="http://Investor.gov/CRS">Investor.gov/CRS</a>, which also provides educational materials about broker-dealers, investment advisers, and investing.</p>
<p><b>What investment services and advice can you provide me?</b></p>	<p>We offer investment advisory services to retail investors, including Investment Management, Financial Planning, Retirement Advisory Services, Consulting Services, and client tailored relationships. As part of our standard services, we will offer you advice on a regular basis. We will discuss your investment goals, design with you a strategy to achieve your investment goals, and regularly monitor your account. We will contact you (by phone or email) at least annually to discuss your portfolio. We provide a variety of investment options ranging from mutual funds, ETFs, bonds, equities and other publicly traded securities. We do not have account minimums.</p> <p>You can choose an account that allows us to buy and sell investments in your account without asking you in advance (a "<b>discretionary account</b>") or we may give you advice and you decide what investments to buy and sell (a "<b>non-discretionary account</b>").</p> <p><b>For additional information</b>, please see the Theory ADV 2A brochure (Items 4 and 7 of Part 2A).</p> <p>Ask your financial professional:</p> <ul style="list-style-type: none"> <li>✓ <b>Given my financial situation, should I choose an investment advisory service? Why or why not?</b></li> <li>✓ <b>How will you choose investments to recommend to me?</b></li> <li>✓ <b>What is your relevant experience, including your licenses, education and other qualifications? What do these qualifications mean?</b></li> </ul>
<p><b>What fees will I pay?</b></p>	<p>Our fees vary and are negotiable. We charge an asset-based fee or an hourly fee. The amount you pay will depend, for example, on the services you receive and the amount of assets in your account. The maximum annual asset-based fee you pay us should not exceed 1.00% of the assets we manage for you. The maximum hourly fee charged to you should not exceed \$400 per hour. Fees are billed once a quarter in advance or arrears depending on the type of arrangement you have with your financial professional.</p> <p>The asset-based fee reduces the value of your account and will be deducted from your account. The more assets you have in the advisory account, including cash, the more you will pay us. We therefore have an incentive to increase the assets in your account in order to increase our fees. You pay our fee quarterly even if you do not buy or sell.</p> <p>The amount you pay to our firm and your financial professional generally does not vary based on the type of investments we select on your behalf. We require written authorization from you in order to deduct advisory fees from your account held by your custodian. The custodian pays from your account when we submit written notice of the amount of the fee to be deducted. If there is insufficient cash in your account, securities may be sold. You will pay a transaction fee when we buy and sell an investment for you. In addition, some investments (such as mutual funds) impose additional fees that will reduce the value of your investment over time.</p> <p><b>You will pay fees and cost whether you make or lose money on your investments. Fees and cost will reduce any amount of money you make on your investments over time. Please make sure you understand what fees and cost you are paying.</b></p> <p><b>For additional information</b>, please see Form ADV, Part 2A brochure (Items 4 and 7 of Part 2A) and other applicable documents.</p>

	<p>Ask your financial professional:  <b>Help me understand how these fees and costs might affect my investments. If I give you \$10,000 to invest, how much will go to fees and costs, and how much will be invested for me?</b></p>
<p><b>What are your legal obligations to me when acting as my investment adviser?</b></p> <p><b>How else does your firm make money and what conflicts of interest do you have?</b></p>	<p>We are held to a fiduciary standard that covers our entire investment advisory relationship with you. For example, we are required to monitor your portfolio, investment strategy, and investments on an ongoing basis.</p> <p><b>When we act as your investment adviser, we have to act in your best interest and not put our interest ahead of yours. At the same time, the way we make money creates some conflicts with your interests. You should understand and ask us about these conflicts because they affect the recommendations we provide you. Here are some examples to help you understand what this means.</b></p> <p>The principal business of Theory is that of a registered investment advisor and provider of financial planning services.</p> <p>Theory has a conflict of interest because it offers both financial planning and investment management services. When providing financial planning services, Theory has an incentive to recommend itself for investment management services as Theory receives additional compensation. You have the right to effect the transactions through a professional unaffiliated with Theory Financial.</p> <p>Ask your financial professional:</p> <p><b>How might your conflicts of interest affect me, and how will you address them? For additional information, please see Form ADV, Part 2A brochure and other applicable documents.</b></p>
<p><b>How do your financial professionals make money?</b></p>	<p>Our financial professionals receive a percentage of the asset-based fee we bill to your accounts as cash compensation as well as any stand-alone financial planning services billed at an hourly rate. The more assets you have in the advisory account, including cash, the more you will pay us. We therefore have an incentive to increase the assets in your account in order to increase our fees.</p>
<p><b>Do your financial professionals have legal or disciplinary history?</b></p>	<p><b>No.</b> We do not have any legal, financial, or other “disciplinary” items to report to you. We are obligated to disclose any disciplinary event that would be material to you when evaluating our Firm and its associated persons.</p> <p>Visit <a href="http://Investor.gov/CRS">Investor.gov/CRS</a> for a free and simple search tool to research us and our financial professionals.</p> <p>Ask your financial professional:  <b>As a financial professional, do you have any disciplinary history? For what type of conduct?</b></p>
<p><b>Additional Information</b></p>	<p><b>For additional information about our services,</b> please see Form ADV, Part 2A brochure and other applicable documents. If you would like additional, up-to-date information or a copy of this disclosure, please call (907) 305-4649 or email us at <a href="mailto:rstout@theoryfinance.com">rstout@theoryfinance.com</a></p> <p>Ask your financial professional:  <b>Who is my primary contact person? Is he or she a representative of an investment adviser or a broker-dealer? Who can I talk to if I have concerns about how this person is treating me?</b></p>

# THEORY FINANCIAL, LLC

This brochure provides information about THEORY FINANCIAL, LLC, dba Theory Financial (“Theory”; “Advisor”; or “Firm”) qualifications and business practices. If you have any questions about the contents of this brochure, please contact us at (970) 305-4649 or by email at [rstout@theoryfinance.com](mailto:rstout@theoryfinance.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any State Securities Authority.

Additional information about Theory is also available at the SEC’s website <https://adviserinfo.sec.gov/> (select “investment adviser firm” and type in our firm name). Results will provide you both Part 1 and 2 of our Form ADV.

We are a registered investment advisory firm. Our registration does not imply any level of skill or training. The oral and written communications we provide to you, including this brochure, are for you to evaluate us. Please use this information as factors in your decision to hire us or to continue our business relationship.

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**ITEM 1 – COVER PAGE ADV PART 2 A**

March 6, 2023

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## ITEM 2 – MATERIAL CHANGES

This brochure dated March 6, 2023, has been prepared by Theory to meet SEC requirements. This section only addresses material changes that have been incorporated since our last annual posting of this document on the public disclosure website (IAPD) <https://adviserinfo.sec.gov/>. Theory is now SEC registered and has made the following update(s):

### **Item 4e: Assets under Management (AUM):**

Theory, as of December 31, 2022, has \$ 177,140,372 in discretionary reportable Assets under Management and no non-discretionary reportable assets for total of \$177,140,372 in assets under management.

### **Item 5a Fees and Compensation: Consulting Services**

Theory and its associated persons no longer offer hourly consulting services.

### **Item 10c: Conflicts of Interest**

Theory and its associated persons no longer offer insurance products.

### **Item 13a: Periodic Reviews**

Accounts are managed and reviewed by Ryan Charles Stout CFP®, CCO. The frequency of reviews is determined based on your investment objectives, but no less than **annually**.

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## ITEM 4 – ADVISORY BUSINESS

### 4a: Firm Description

THEORY FINANCIAL, LLC, dba Theory Financial an Idaho S-Corporation, became licensed to do business in June 2019 in the State of Colorado. Our main office is located in Fort Collins, Colorado.

#### 4a1: Principal Member

- Ryan Charles Stout CFP®, is the Managing Member, Chief Compliance Officer and sole owner of Theory. Mr. Stout may be contacted by email at [rstout@theoryfinance.com](mailto:rstout@theoryfinance.com) or by telephone at (970) 305-4649.

### 4b: Types of Advisory Services

Theory Financial offers a variety of investment advisory services to our clients with discretionary and non-discretionary authority. Theory's services include investment management, financial planning, consulting services and retirement advisory services. Prior to providing advisory services, clients are required to enter into a written agreement with Theory.

When we provide investment advice to you regarding your retirement plan account or individual retirement account, we are fiduciaries within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way we make money creates some conflicts with your interests, so we operate under a special rule that requires us to act in your best interest and not put our interests ahead of yours. As fiduciaries we are obligated to do the following:

- Meet a professional standard of care when making investment recommendations (give prudent advice);
- Never put our financial interests ahead of yours when making recommendations (give loyal advice);
- Avoid misleading statements about conflicts of interest, fees, and investments;
- Follow policies and procedures designed to ensure that we give advice that is in your best interest;
- Charge no more than is reasonable for our services; and
- Give you basic information about conflicts of interest.

#### *Investment Management Services*

We work with our clients to identify their investment goals and objectives as well as risk tolerance in order to create an initial portfolio investment strategy designed to integrate with their specific financial goals and objectives. The Firm focuses on providing clients with investment portfolios designed to balance client specific risk and return requirements. Portfolios are constructed using a strategic asset allocation approach to provide a globally balanced investment strategy. Portfolios are constructed with diversified mutual funds, and exchange traded funds. Individual stocks and bonds can be used if appropriate for individual client needs.

Each portfolio will initially be designed to meet a particular investment goal which Theory has determined to be suitable to our client's circumstances. Once the appropriate portfolio construction has been determined, we will monitor and rebalance the account based upon our client's individual needs, stated goals and objectives. Theory's strategy, generally, will be to seek to meet client investment objectives while providing clients with access to personal advisory services. Theory may also provide advice about any type of legacy investment holding or other investments held in client portfolios.

As a fiduciary, Theory always acts solely in your best interests. Your portfolio is customized based on your investment objectives. You may make requests or make suggestions in writing regarding the investments made in your portfolio. Restrictions on trading which, in our opinion, are not in your best interest cannot be honored and if forced may result in the termination of our agreement.

In cases where we are not given discretion, we must receive permission from the client to make any trades on a non-discretionary basis. In non-discretionary accounts, you have the right to decide whether to act upon Theory's recommendations. If you elect to act on any of the recommendations, you have the right to effect the transaction through a professional unaffiliated with Theory.

## ***Financial Planning Services***

Theory offers a broad range of financial planning and consulting services for our clients. Planning services can be provided on a stand-alone basis, or in conjunction with our investment management services. Financial Planning services are generally complimentary for clients that have investment management services. The exception would be if financial planning is requested for complex situations beyond our normal scope listed below.

The services take into account information collected from the client such as financial status, investment objectives, tax status, and financial resources among other data. With respect to estate planning and tax planning, our role will be that of a coordinator between you and your designated professional(s).

Financial Planning includes, in all or part, but is not limited to, the preparation of a financial plan for an investment advisory client which may include reviews and recommendations on any or all the following areas depending on the client's circumstances:

- **Investment Planning:** Determine with the client, based on their goals, time horizon and risk tolerance, how to structure a suitable portfolio (using mutual funds and ETF's) using principles of diversification, asset allocation, and sometimes asset location.
- **Investment Policy Statements:** Determining specific parameters within which a client's investments will be managed that can include the weighting of stocks to bonds to cash, the limitation on the use of any particular type of security, the methodology used for rebalancing and so on.
- **Portfolio review and evaluation:** Assessment of a client's existing portfolio to determine suitability of their current investments and in some cases, evaluating the differences between such and the methods Theory utilizes to manage assets. Evaluation can include weighting of asset classes, types of securities used, concentrated positions, tax efficiency of investments, expense ratios and so forth.
- **Capital Needs Analysis (Goal Funding):** A method using time value of money calculations to determine how much a client would need to save, at a given level of return, every month or year in order to achieve a certain financial goal, such as paying for 4 years of college for their child.
- **Tax Management and Planning:** Forward-looking tax strategy that can help a client minimize their tax expenses and maximize what they have to invest. This can include planning for Roth Conversions, Strategic Charitable giving, Deferring income into tax advantaged retirement accounts, tax-loss harvesting – to name a few.
- **Trust and Estate Planning:** Helping a client understand how assets are distributed upon death and at times, working with their estate planning attorneys to achieve both their financial and estate planning goals. This also involves review of beneficiary designations and ensuring clients have the proper and updated documents drafted to ensure they are always in control of how assets will be distributed.
- **Retirement Planning:** Gathering data that relates to a client's assets, liabilities, expenses, goals and savings, and evaluating such to determine the most appropriate strategy to achieving the greatest probability of being able to retire in the lifestyle they desire and maintain such for the rest of their lives.
- **Social Security:** Helping a client decide when to file for social security is a critical part of the retirement planning process. Married clients are advised on how to make their selections based on their particular circumstances as a couple and can involve a complex analysis that depends on longevity, income needs, and whether the client/s intend to work in their retirement.

- **Employee Benefits:** If a client is an employee and has access to benefits, an analysis of available benefits can be done together with the client, offering advice on what benefits should be selected based upon the particular client's wishes, goals and family needs. This can include various types of insurance, Flexible Spending accounts, Employee Stock Purchase plans, Restricted Stock Awards, Options, and so on.
- **Education Planning:** Helping clients plan financially for the expenses involved in educating their children and the function of various tax advantaged ways of saving for such expenses such as with a 529 plan and annual gifting.
- **Budgeting and Cash Flow Planning:** Determining with the client what their net income and monthly/annual expenses are so as to determine where costs might be reduced to produce additional cash flow that can be allocated towards goals.
- **Debt Management:** Where a client has debts, gathering data on the nature and interest rates being paid on all liabilities, then completing a cash flow analysis to come up with the best strategy for tackling the paying down of debt in the most efficient way possible.
- **Business Planning:** If a client has or wishes to set up a small business, advice can be provided on entity selection, setting up of a retirement plan, employee benefits, and potentially a cross-purchase/buy-sell agreement.
- **Charitable Giving:** When a client wishes to be philanthropic, Theory can assist the client in how to leverage their investments to maximize contributions and provide tax advantages simultaneously. This can include gifting of required minimum distributions (RMD's), setting up of Donor Advised Funds or gifting of highly appreciated shares, to name a few.
- **Insurance Analysis:** Gathering data on all current insurance policies that a client may have such as life, disability, and long-term care policies and running an analysis to ensure that there is an adequate transfer of financial risk to the insurance company and a client still has the opportunity to meet their financial goals should something unforeseen occur such as a premature death or an disability.
- **Risk Management (Life and Disability Insurance):** Theory does not sell insurance products but can offer advice on what types of insurance a client may need or be lacking and how much would be adequate to ensure their goals are still met in the event of a disability or premature death.
- **Disability Planning and Income Protection:** Using various planning tools, an analysis of any current income protection a client may have through work (or owned individually) is completed to determine whether there any "gaps" that might leave the client's family unable to meet financial goals and if so, providing advice with finding the appropriate coverage.

Financial planning services can vary and is customized depending on each client's complexity and circumstances. The financial planning services will be defined and agreed upon by both parties in advance. For example, a client's not using Theory's investment management services may request a comprehensive financial plan, or certain components of our planning services.

The amount of time it could take to provide each of the financial planning services will depend on the client's unique circumstances and will vary from client to client. Our services are customized based on what a client may request. In addition, the amount of time it takes to provide these services is dependent on the quality and scope of the information that is provided by the client to the advisor.



Clients are encouraged to review their plans on a regular basis.

Theory has a conflict of interest because it offers both financial planning and investment management services. When providing financial planning services, Theory has an incentive to recommend itself for investment management services as Theory receives additional compensation. Theory mitigates this conflict of interest by disclosing this conflict to you and disclosing that clients always have the right to decide whether to act on any of the recommendations made by Theory and if you elect to act on any of the recommendations, you have the right to effect the transactions through a professional unaffiliated with Theory. Our fiduciary obligation is to always act and recommend in the clients' best interest.

#### **4c: Client Tailored Relationships and Restrictions**

As a fiduciary, Theory always acts solely in your best interests. Your portfolio is customized based on your investment objectives. You may make requests or make suggestions regarding the investments made in your portfolio. Restrictions on trading which, in our opinion, are not in your best interest cannot be honored and if forced may result in the termination of our agreement.

You are under no obligation to act upon Theory's or their associated person's recommendations.

#### **4d: Wrap Fee Program**

Theory does not sponsor nor provide portfolio management services to a wrap fee program.

#### **4e: Assets under Management (AUM)**

Theory, as of December 31, 2022, has **\$177,140,372** in discretionary reportable Assets under Management and no non-discretionary reportable assets for total of **\$177,140,372** in assets under management.

### **ITEM 5 – FEES AND COMPENSATION**

#### **5a, b, c & d: Fee Schedules, Payments & Options**

##### *Investment Management*

<b>ASSETS UNDER MANAGEMENT</b>	<b>ANNUAL FEE (%)</b>
<i>\$0 – \$250,000</i>	<i>0.99%</i>
<i>\$250,001 – \$750,000</i>	<i>0.85%</i>
<i>\$750,001 – \$1,500,000</i>	<i>0.75%</i>
<i>\$1,500,001 – \$3,000,000</i>	<i>0.65%</i>
<i>\$3,000,001 – \$5,000,000</i>	<i>0.55%</i>
<i>Over \$5,000,000</i>	<i>0.50%</i>

Theory utilizes a tiered fee structure under which a lower rate is charged on assets invested in each succeeding tier. For example, an account with \$1,500,000 invested will be charged, .99% on the first 250,000 invested (i.e. \$2475) and .85% for each dollar invested between \$250,001 and \$750,000.00 (i.e. \$4250 for \$500,00.00) and .75% for each dollar above \$750,000.00 (i.e. \$5625 for \$750,000) for a total fee of \$12,350. Theory does not have an account minimum. Please note that the rates quoted above are annual rates and that billing occurs quarterly as described below.

Fees are negotiable. Fees may differ based on a number of factors:

- Size of the relationship – Larger accounts may receive more favorable pricing.
- Accounts within the same household will be combined under a signed householding form for a reduced fee unless the client instructs otherwise.
- Less active accounts may receive more favorable pricing.
- Our employees and their family related accounts are charged a reduced fee for services.

For purposes of determining value, securities and other instruments traded on a market for which actual transaction prices are publicly reported are valued at the last reported sale price on the principal market in which they are traded. If the investments are not managed assets, they are not included in Theory's fee calculation.

Compensation for our services will be calculated in accordance with what is set in the client agreement. We may modify the terms of any agreement by written changes submitted to the client for signature. While we strive to maintain competitive fees, the same or similar services may be available from other firms at higher or lower fees.

Theory requires written authorization from the client to deduct advisory fees from an account held by a qualified custodian. Theory sends the qualified custodian written notice of the amount of the fee to be deducted from the client's account. Theory fees are paid from your account by the custodian when we submit an invoice to them.

Theory fees are paid quarterly in advance based on the value as of the last business day of the prior quarter, with payment due within 10 days from the date of the invoice. Our fee is determined by taking the percentage rate we charge, divided by four, times the market value of the account. The market value is the sum of the values of all managed assets in the account, not adjusted by any margin debit.

In cases where there are partial fees at the commencement or termination of our agreement, they will be billed or refunded on a pro-rated basis contingent on the number of days the account was open. Quarterly fee adjustments for additional assets received into the account during a quarter or for partial withdrawals will also be provided on the above pro rata basis.

If there is insufficient cash in your account to pay your fees, securities in your portfolio may be sold to pay our fee.

In addition to our fees, there may be custodial or mutual fund fees.

#### *Financial Planning Fees*

For clients who engage Theory for investment management services, fees for financial planning and consulting services are generally complimentary.

Fees for stand-alone services (when a client does not use Theory's investment management services for complimentary financial planning) are charged on an hourly basis. The hourly rate for financial planning is \$200. Preparing an initial financial plan generally takes 5 – 10 hours depending on the complexity, nature and time required to gather and analyze relevant information. As plans become more complex, require additional expertise, cover multiple topics, they take more time to complete and may require additional hours. For clients who subsequently engage Theory for investment management services, we do not waive or offset fees paid for stand-alone financial planning and consulting services.

These arrangements will be defined and agreed upon by both parties via the financial planning agreement. The fees are negotiable.

Theory does not require a retainer for this service. Financial Planning fees will be billed in arrears upon delivery of the plan or completion of the agreed services, with payment due within 10 days from the date of the invoice. Financial Planning fees may be paid by personal check, or the client may elect by written authorization to have their fee debited from investment management non-qualified accounts approved for such fee debit payments. Fees may be billed on a quarterly basis. In all instances, Theory will send the client a written invoice concurrent with the request for payment. The invoice will include the fee, the formula used to calculate the fee(s), the fee calculation itself, the time period covered by the fee(s) and the services provided.

Theory does not take receipt of more than \$1200 in fees per client six (6) months in advance. Clients may terminate these contracts at any time. When an agreement is terminated, Theory will invoice for all earned fees as of the date of termination based on the services completed. Theory will deliver the completed portion of any documents to the client.

#### **5c: Third Party Fees**

You are responsible for the payment of all third-party fees (i.e. custodian fees, mutual fund fees, 12b-1 fees, transaction fees, etc.). Those fees are also separate and distinct from the fees we charge. Theory does the best we can to minimize all fees and transaction costs.

All brokerage commissions, stock transfer fees, 12b-1 fees and other similar charges incurred in connection with transactions for the account will be paid out of the assets in the account and are in addition to the investment management fees paid to us. While we take measures to ensure the fees charged are accurate, it is your responsibility to ensure the amount of fee charged is correct. In addition to invoices and reports sent by us, you will receive statements directly from the custodian or mutual funds or other investments you hold. We strongly urge you to compare our invoices and reports to custodian statements for accuracy.

#### **5.d: Termination**

The investment advisory contract may be terminated by the client within five (5) business days of signing the contract without incurring any advisory fees or penalty. Ongoing, Theory or our clients can terminate our agreement upon receipt of written notice to the other party.

When an agreement is terminated, we will refund any pre-paid, unearned fees based on the number of days remaining in the quarter after termination. Refunds will be made within 30 days of the effective date of termination.

You will be responsible for paying all fees including full quarterly custodial administrative fees, account closure fees, mutual fund fees and all trading costs due to the termination. If there is insufficient cash in the account, the liquidation of some securities may be used to pay the fees. Prior to termination of an agreement, we can provide a good faith estimate of these fees.

#### **5e: Other Investment Compensation**

Theory does not accept commission for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

## ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Theory does not charge advisory fees on the performance of funds or securities in your account.

## ITEM 7 – TYPES OF CLIENTS

Theory generally provides asset management and financial planning services to the following types of clients:

- Individuals
- High-Net-Worth Individuals
- Trusts
- Estates
- Corporations
- Pension and Profit-Sharing Plans
- Charities

Minimum Account Size:

Theory does not have an account minimum. However, we may decline to accept clients with smaller portfolios.

## ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### 8a: Analysis

In determining the recommendations to give to you, we first gather and consider information regarding several factors including our client's:

- Current financial situation.
- Investment goals and objectives.
- Current and long-term needs.
- Tolerance and appetite for risk; and
- Level of investment knowledge.

Theory uses multiple sources of information to obtain analysis and strategies. They include sources such as financial newspapers, financial magazines, research prepared by others, corporate rating services, prospectuses, company press releases, annual reports, and filings with the SEC.

Theory's methods of analysis include Fundamental Analysis, Modern Portfolio Theory and Cyclical Analysis,

*Fundamental Analysis* involves the analysis of financial statements, the general financial health of companies, and/or the analysis of management or competitive advantages.

*Modern Portfolio Theory* is a theory of investment that attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, each by carefully choosing the proportions of various assets.

*Cyclical Analysis* involves the analysis of business cycles to find favorable conditions for buying and/or selling a security.

### 8b: Investment Strategies

#### **Asset Allocation**

Theory recommends a mix of asset classes for your portfolio based on an assessment of your long-term financial objectives. Theory focuses on providing clients with portfolios designed to balance client specific risk and return requirements. Portfolios are constructed using a strategic asset allocation approach to provide a globally balanced investment strategy. Portfolios are constructed with diversified mutual funds, and exchange traded funds. Individual stocks and bonds can be used if appropriate for individual client needs.

Our recommended asset allocation is not influenced by current market conditions. This asset allocation is altered only when your long-term investment objectives have changed.

Asset Allocation is based on the principle that different assets perform differently in different market and economic conditions. It is difficult to predict how any particular asset class will perform in any given year.

Diversification is a strategy for managing risk. Diversification does not ensure a profit or protect against a loss in a declining market. Asset Allocation is unlikely to generate the greatest returns since not all of the asset classes will do equally well.

### **Rebalancing**

Asset allocations for your portfolio will change as financial markets rise and fall and the specific assets of different parts of your portfolio change. This creates the opportunity to selectively rebalance your portfolio in order to bring asset class percentages back to your policy targets. Asset classes that have risen beyond predetermined limits are sold by an amount that brings the allocation back in line with policy targets, and those that have fallen in value are purchased in the same way. This is a method of buying low and selling high that is not based on trying to predict the direction of markets or asset returns.

This rebalancing has the effect of enhancing portfolio returns while maintaining the agreed-upon risk. In order to limit rebalancing transactions and the costs associated with buying and selling mutual funds through the chosen custodian, Theory has pre-determined ranges in which allocations may vary and at which rebalancing is initiated.

### **Specific Investments**

We generally select ETFs, mutual funds or similar securities, we may at times select individual securities or build individual stock portfolios for our clients. In these cases, Theory examines each securities' management, financial condition, and market position and ensures that any purchases of individual securities work towards the client's portfolio goals, investment horizons and exposure to risk. Individual stocks present potential risks as prices of individual securities can move up or down due to general economic conditions, industry specific conditions, government regulations or corporate management, among other factors.

### **8c: Risk of Loss**

All investments include a risk of loss that clients should be prepared to bear. Performance of any investment is not guaranteed. We use our best efforts and expertise to manage your assets. However, we cannot guarantee any level of performance or that you will not experience financial loss.

*Fundamental Analysis* concentrates on factors that determine a company's value and expected future earnings. This strategy would normally encourage equity purchases in stocks that are undervalued or priced below their perceived value. The risk assumed is that the market will fail to reach expectations of perceived value.

*Modern Portfolio Theory* assumes that investors are risk averse, meaning that given two portfolios that offer the same expected return, investors will prefer the less risky one. Thus, an investor will take on increased risk only if compensated by higher expected returns. Conversely, an investor who wants higher expected returns must accept more risk. The exact trade-off will be the same for all investors, but different investors will evaluate the trade-off differently based on individual risk aversion characteristics. The implication is that a rational investor will not invest in a portfolio if a second portfolio exists with a more favorable risk-expected return profile – i.e., if for that level of risk an alternative portfolio exists which has better expected returns.

*Cyclical Analysis* assumes that the markets react in cyclical patterns which, once identified, can be leveraged to provide performance. The risks with this strategy are two- fold: 1) the markets do not always repeat cyclical patterns; and 2) if too many investors begin to implement this strategy, then it changes the very cycles these investors are trying to exploit.

Clients should be aware that there is a material risk of loss using any investment strategy. The investment types listed below (leaving aside Treasury Inflation Protected/Inflation Linked Bonds) are not guaranteed or insured by the FDIC or any other government agency.

*Mutual Funds:* Investing in mutual funds carries the risk of capital loss and thus you may lose money investing in mutual

funds. All mutual funds have costs that lower investment returns. The funds can be of bond “fixed income” nature (lower risk) or stock “equity” nature.

*Exchange Traded Funds (ETFs):* An ETF is an investment fund traded on stock exchanges, similar to stocks. Investing in ETFs carries the risk of capital loss (sometimes up to a 100% loss in the case of a stock holding bankruptcy). Areas of concern include the lack of transparency in products and increasing complexity, conflicts of interest and the possibility of inadequate regulatory compliance. Precious Metal ETFs (e.g., Gold, Silver, or Palladium Bullion backed “electronic shares” not physical metal) specifically may be negatively impacted by several unique factors, among them (1) large sales by the official sector which own a significant portion of aggregate world holdings in gold and other precious metals, (2) a significant increase in hedging activities by producers of gold or other precious metals, (3) a significant change in the attitude of speculators and investors.

*Equity* investments generally refers to buying shares of stocks in return for receiving a future payment of dividends and/or capital gains if the value of the stock increases. The value of equity securities may fluctuate in response to specific situations for each company, industry conditions and the general economic environments.

*Fixed income* investments generally pay a return on a fixed schedule, though the amount of the payments can vary. This type of investment can include corporate and government debt securities, leveraged loans, high yield, and investment grade debt and structured products, such as mortgage and other asset-backed securities, although individual bonds may be the best-known type of fixed income security. In general, the fixed income market is volatile and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. The risk of default on treasury inflation protected/inflation linked bonds is dependent upon the U.S. Treasury defaulting (extremely unlikely); however, they carry a potential risk of losing share price value, albeit rather minimal.

## **ITEM 9 – DISCIPLINARY INFORMATION**

### **9a: Civil or Criminal Actions**

Theory and its managers have never been found guilty, convicted or plead no contest to a criminal or civil action in a domestic, foreign or military court.

### **9b: Administrative Enforcement Proceedings**

Theory and its managers have never been found by the SEC, any other state or federal agency or any foreign regulatory agency to have caused loss of the ability of an investment-related business to do business or been sanctioned, barred or limited in investment-related activities.

### **9c: Self-Regulatory Organization Enforcement Proceedings**

Theory and its managers have never been found by a self-regulatory agency to have caused loss of the ability of an investment-related business to do business. Additionally, Theory and its managers have never been found in violation of self-regulatory agencies rules such that they were barred, suspended, limited in advisory functions or fined.

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

### **10a: Broker Dealers and Registered Representatives**

Theory is not registered as a broker-dealer and our employees are not registered representatives of any broker-dealer.

### **10b: Registration as a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor**

Neither Theory nor our employees hold any of the above registrations.

### **10c: Registration Relationships Material to this Advisory Business and Possible Conflicts of Interests**

The principal business of Theory is that of a registered investment advisor and provider of financial planning services.

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

### 11a: Code of Ethics Description

We have adopted a Code of Ethics to which all investment advisor representatives and employees are bound to adhere. The key component of our Code of Ethics states that Theory and its investment advisor representatives and employees shall always:

- Act with integrity, competence, dignity, and ethics when working with clients, prospects, employers and employees.
- Exercise its authority and responsibility for the benefit and interest of its clients first and to refrain from having outside interests that conflict with the interests of its clients. Theory must avoid any circumstances that might adversely affect or appear to affect its duty of complete loyalty to its clients.
- Refrain from disclosing any nonpublic personal information about a client to any nonaffiliated third party unless the client expressly gives permission to Theory to do so. All client information will otherwise be treated as confidential.
- Maintain the physical security of nonpublic information, including information stored on computers.

This Code of Ethics is in place to guide the personal conduct of our team and embodies our fiduciary duties and responsibilities to you and sets forth our practice of supervising the personal securities transactions of employees with prior or concurrent access to client trade information. A copy of the Theory Code of Ethics is available, free of charge, upon request.

### 11b, c & d: Participation or Interest in Client Transactions

Theory, or its employees, may buy and sell some of the same securities for our own accounts that we buy and sell for our clients. We will always buy or sell from our clients' accounts before we buy or sell from our accounts. In some cases, Theory, or its employees, may buy or sell securities for our own accounts and not for clients' accounts, as it may not meet the objectives or plans for the client. There are possible conflicts of interest, which our Code of Ethics addresses. We will always evaluate our activity from the view of our clients to ensure that any and all required disclosures are made. For example, we will disclose anything that would cause you to be unfairly influenced to make any decision regarding actions or inactions in your account. Theory does not buy or sell between Theory, our employees or our clients' accounts.

Theory always tries to get the best price for the client. Theory has in place internal controls and processes to allow contemporaneous trading (submitting Theory or employee orders at the same time as client order) in block or aggregate trades. In other cases, except in the case of unaffiliated mutual funds, we will always trade individual securities in a client account before we trade Theory or employee accounts.

Theory does not recommend securities to advisory clients nor buy or sell securities for advisory client accounts in which Theory or a related person has a material financial interest.

## ITEM 12 – BROKERAGE PRACTICES

### 12a: Selecting Brokerage Firms

#### The Custodian and Brokers We Use

Theory does not maintain custody of your assets that we manage. Your assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or bank. We recommend that our clients use Charles Schwab & Co. Inc. (Schwab) as the qualified custodian. Theory is independently owned and operated and not affiliated with Schwab.

Custodians will hold your assets in a brokerage account and buy and sell securities when instructed to do so. While we recommend that you use Schwab as custodian/broker, you will decide whether to do so and open your account by

entering into an account agreement directly with them. If you do not wish to place your assets with Schwab, then we cannot manage your account. Even though your account is maintained at Schwab, we can still use other brokers to execute trades for your account, as described under **Your Custody and Brokerage Costs** below. Theory does not receive client referrals from Schwab.

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

We seek to select 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, these:

- combination of transaction execution services along with asset custody services (generally without a separate fee for custody)
- capability to execute, clear and settle trades (buy and sell securities for your account)
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- breadth of investment products made available (stocks, bonds, mutual funds, exchange traded funds (ETFs), etc.)
- availability of investment research and tools that assist us in making investment decisions
- quality of services
- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them
- reputation, financial strength and stability of the provider
- their prior service to us and our other clients
- availability of other products and services that benefit us, as discussed below (*see "Products and Services Available to Us from Custodians we use"*)

To avoid creating a possible conflict of interest in recommending broker-dealers, we have established the following restrictions in order to ensure our fiduciary responsibilities:

1. Theory adheres to our Code of Ethics as outlined in Item 11 above.
2. If Theory receives separate compensation for transactions, we will fully disclose them.
3. Theory emphasizes the unrestricted right of you to select and choose your own broker or dealer.
4. Theory will always act in accordance with all applicable federal and state regulations governing registered investment advisory practices.

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

For our clients' accounts it maintains, custodians generally do not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your account. For some accounts, custodians may charge you a percentage of the dollar amount of assets in the account in lieu of commissions. Custodian rates may be determined by committing a certain value of assets at the custodian. This commitment benefits you because the overall rates you pay are lower than they would be if we had not made the commitment. You may also be charged a flat dollar amount as a "prime Broker" or "trade away" fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account.

### **Products and Services Available to Us**

Custodians may provide Theory and our clients with access to its institutional brokerage – trading, custody, reporting and related services – many of which are not typically available to retail customers. These services help us manage or administer our clients' accounts while others help us manage and grow our business.

Services that Benefit You. You gain access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through custodians include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients.



Services that May Not Directly Benefit You. 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 from the custodian and that of third parties. We may use this research to service all or some substantial number of our clients' accounts, including accounts not maintained at the custodian from which we received the benefit. In addition to investment research, custodians also make available software and other technology that:

- provide access to client account data (such as duplicate trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide pricing and other market data;
- facilitate payment of our fees from our clients' accounts; and
- assist with back-office functions, recordkeeping and client reporting.

Services that Generally Benefit Only Us. Some services are intended to help us manage and further develop our business enterprise. These services include:

- educational conferences and events
- technology, compliance, legal, and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants.

Custodians may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. They may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. They may also provide us with other benefits such as occasional business entertainment of our personnel.

We endeavor at all times to put the interests of our clients first. You should be aware, however, that the receipt of the types of benefits discussed above can create a potential conflict of interest by influencing our choice of a custodian.

#### **12.b: Sales Aggregation**

Theory is authorized to aggregate purchases and sales and other transactions made for your account with purchases and sales and other transactions in the same or similar securities or instruments for other clients of ours. When we aggregate transactions, the actual prices applicable to the aggregated transactions will be averaged, and the account will be deemed to have purchased or sold its proportionate share of the securities or instruments involved at the average price obtained. Stock exchange regulations may in certain instances prevent the executing broker-dealer from delivering to the account a confirmation slip with respect to its participation in the aggregated transaction and, in such event, we will advise you in writing of any purchase or disposition of instruments for the account with respect to any such aggregated transaction. We will direct that confirmations of any transactions effected for the account will be sent, in conformity with applicable law, to you.

### **ITEM 13 – REVIEW OF ACCOUNTS**

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#### **13a: Periodic Reviews**

Accounts are managed and reviewed by Ryan Charles Stout CFP®, CCO. The frequency of reviews is determined based on your investment objectives, but no less than annually. Accounts are reviewed to determine if the positions, transactions and strategies are consistent with the Client's stated investment objective(s) and whether any rebalancing or adjustments may be necessary.

Financial planning clients receive their financial plans and recommendations at the time the service is completed. Depending on the type of financial planning service requested, we may meet on a regular basis with you to discuss any potential changes to your financial plan.

#### **13b: Review Triggers**

More frequent reviews are triggered by a change in your investment objectives; tax considerations; large deposits or withdrawals; large sales or purchases; loss of confidence in corporate management; or, changes in economic climate.

#### **13c: Regular Reports**

All investment advisory clients receive reports as needed, but no less than annually, on representative investments

recommended specifically by Theory. Reports are generated either through Tamarac or Orion based on custodian data. Performance reports may contain such items as: Performance Review, Summary by Account, Asset Allocation, Security Performance, Realized Gains/Losses, Holdings, and Transactions that occurred during the period. Custodian data is provided to Tamarac and Orion directly and reports are generated only using the custodian data.

Investment advisory clients also receive standard account statements from the custodian of their accounts on at least a quarterly basis. Financial planning clients do not normally receive investment reports.

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

### **14a: Economic Benefits Provided by Third Parties for Advice Rendered to Clients**

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisors that have their clients maintain accounts at these custodians. These products and services, how they benefit us, and the related conflicts of interest are described above (*see Item 12 – Brokerage Practices*). The availability to us of these products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

Theory does not receive economic benefits from third parties for the advice we render to our clients. As disclosed in Item 12 above, broker-dealers may provide services, tools or other non-financial benefits to us as a benefit for using the broker-dealer's services. However, we endeavor at all times to put the interests of our clients first. You should be aware, however, that the receipt of benefits can create a potential conflict of interest by influencing our choice of a broker-dealer.

### **14b: Compensation to Non-Advisory Personnel for Client Referrals**

Theory does not directly or indirectly compensate any person for client referrals.

## **ITEM 15 – CUSTODY**

Theory clients' accounts are held by a qualified custodian, as designated by the client in writing. Theory may have custody of Client assets (i) where we have authority to withdraw advisory fees upon our instruction to the custodian and (ii) where we request Client funds to be disbursed pursuant to a standing letter of authorization. With the exception aforementioned custody, and other than to withdraw advisory fees or to disburse funds or securities pursuant to a standing letter of authorization, Theory shall have no liability to the client for any loss or other harm to any property in the account, including any harm to any property in the account resulting from the insolvency of the custodian or any acts of the agents or associated persons of the custodian and whether or not the full amount or such loss is covered by the Securities Investor Protection Corporation ("SIPC") or any other insurance which may be carried by the custodian. The client understands that SIPC provides only limited protection for the loss of property held by a broker-dealer.

As a fiduciary, Theory will always act in the client's best interests and in doing so, the above does not limit or modify that duty to our clients. Custodial statements will include fees charged by Theory.

## **ITEM 16 – INVESTMENT DISCRETION**

Theory asks our clients to give us discretionary authority to execute transactions without our client's prior approval. These transactions may include the purchase and selling of securities, arranging for payments or generally acting on behalf of our clients in most matters necessary to the handling of the account. This includes the buying or selling of securities, the rebalancing and selection of portfolios, the selection of portfolio managers or subadvisors or the disbursement of funds to the client as requested or arranged. Discretionary authority is granted once an election is made on the Investment Advisory Agreement and the agreement is signed by the client. In cases where we are not given discretion, we must receive permission from the client to make any trades on a non-discretionary basis.

You may make requests or make suggestions regarding the investments made in your portfolio. Restrictions on trading which, in our opinion, are not in your best interest cannot be honored and if forced may result in the termination of our agreement.

## **ITEM 17 – VOTING CLIENT SECURITIES**

The clients of Theory retain the authority to proxy vote. You should ensure that proxy ballots are mailed directly to you by selecting this option on your custodial application forms. You are welcome to delegate said proxy voting authority to a third-party representative (non-advisory personnel) by filing the appropriate custodial form. Theory will not accept authority to vote client proxies. This policy is set forth in Theory 's standard advisory agreements. Proxy material will be sent from the transfer agent and in rare cases could come from Schwab.

Should Theory inadvertently receive proxy information for a security held in clients' accounts, it would immediately forward such information on to clients, but will not take any further action with respect to the voting of such proxy. Upon termination of the advisory relationship, Theory will make a good faith and reasonable attempt to forward proxy information inadvertently received on behalf of clients to the forwarding address provided by clients. Clients may contact Theory for advice or information about a particular proxy vote; however, Theory shall not be deemed to have proxy voting authority solely as a result of providing such advice to clients.

## **ITEM 18 – FINANCIAL INFORMATION**

### **18a: Balance Sheet**

Theory does not solicit prepayment of more than \$1200 in fees per client six (6) months or more in advance.

### **18b: Financial Conditions**

Theory has no financial issues that could impair our ability to carry out our fiduciary duty to our clients.

### **18c: Bankruptcy Petition**

Theory has never been the subject of a bankruptcy petition.