

Quantum Financial Advisors, Inc.
CRD # 113563

ADV Part 2A, Firm Brochure
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This brochure provides information about the qualifications and business practices of Quantum Financial Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at (202) 955-9201 or jrinaldi@qfainc.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Quantum Financial Advisors, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

References herein to Quantum Financial Advisors, Inc. as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.

Item 2 Material Changes

There have been no material changes made to Quantum Financial Advisors, Inc.'s disclosure statement since its last Annual Amendment on March 24, 2016.

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Item 4 Advisory Business

- A. Quantum Financial Advisors, Inc. (the “Registrant”) is a corporation formed in June, 1996 in the State of Delaware. The Registrant became registered as an Investment Adviser Firm in 1996. The Registrant is owned by Joseph F. Rinaldi who is also the Registrant’s President.
- B. As discussed below, the Registrant offers to its clients (individuals, business entities, pension and profit sharing plans, trusts, estates and charitable organizations, etc.) investment advisory services, and, to the extent specifically requested by a client, financial planning and related consulting services.

INVESTMENT ADVISORY SERVICES

Platinum Level Accounts, \$5 million - \$10 million receive:

Daily customized Gain/Loss report & Quarterly QFA investment newsletter.
Quarterly reviews via phone, teleconferencing or personal meetings.
Complimentary year-end tax assistance with Gain/Loss report.
Complimentary Quarterly Broadcast- Money & Capital Markets Monitor.
Personalized "web enabled" Account Internet Access, with full financial & performance reporting.
Invitation to roundtable educational "lunch & learn" seminars and/or dining meetings.
Superior Prime Broker execution with other Broker/Dealers.
Preferred Participation in IPOs. (to the extent available) .
Twenty four/seven access to the Chief Investment Officer (“CIO”). Such access is limited to times scheduling availability at a mutually convenient time between the CIO and the client.

Gold Level Accounts, \$1 million-\$5 million receive:

Daily customized Gain/Loss report & Quarterly QFA investment newsletter.
Annual reviews via phone, teleconferencing or personal meetings.
Complimentary year-end tax assistance with Gain/Loss report.
Complimentary Quarterly Broadcast-Money & Capital Markets Monitor
Personalized "web enabled" Account Internet Access, with full financial & performance reporting.
Invitation to roundtable educational "lunch & learn" seminars and/or dining meetings.
Superior Prime Broker execution. with other Broker/Dealers.
Participation in IPOs. (to the extent available) .

Silver Level Account, \$500,000 to \$1 million receive:

Daily customized Gain/Loss report & Quarterly QFA investment newsletter.
Annual reviews via phone, teleconferencing or personal meetings.
Complimentary year-end tax assistance with Gain/Loss report.
Complimentary Quarterly Broadcast- Money & Capital Markets Monitor.
Personalized "web enabled" Account Internet Access, with full financial & performance reporting.
Invitation to roundtable educational "lunch & learn" seminars and/or dining meetings.
Superior Prime Broker execution with other Broker/Dealers.
Participation in IPOs. (to the extent available) .

Bronze Level Account, \$250,000 to \$500,000 receive:

Daily customized Gain/Loss report & Quarterly QFA investment newsletter.
Annual reviews via phone, teleconferencing.
Complimentary year-end tax assistance with Gain/Loss report.
Complimentary Quarterly Broadcast-Money & Capital Markets Monitor.
Personalized "web enabled" Account Internet Access, with full financial & performance reporting.
Invitation to roundtable educational "lunch & learn" seminars and/or dining meetings.
Superior Prime Broker execution with other Broker/Dealers.
Participation in IPOs. (to the extent available) .

Client Accounts <=\$250,000 receive:

Daily customized Gain/ Loss report & Quarterly QFA investment newsletter.
Annual reviews via phone or teleconferencing.
Complimentary year-end tax assistance with Gain/Loss report.
Complimentary Quarterly Broadcast- Money & Capital Markets Monitor.
Personalized "web enabled" Account Internet Access, with full financial & performance reporting.
Invitation to educational "lunch & learn" seminars and/or dining meetings.
Superior Prime Broker execution-execution for accounts >=\$100K in equity value per account.
Potential Participation in IPOs. (to the extent available) .

FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)

To the extent specifically requested by a client, the Registrant *may* determine to provide financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone separate fee basis. Such services include, but are not limited to, cash flow planning, goal setting, retirement planning, insurance planning, and estate planning. Registrant's planning and consulting fees are negotiable, but generally range from \$2,000 to \$5,000 on a fixed fee basis, and from \$250 to \$500 on an hourly rate basis, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s). Prior to engaging the Registrant to provide planning or consulting services, clients are generally required to enter into a *Financial Planning and Consulting Agreement* with Registrant setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the portion of the fee that is due from the client prior to Registrant commencing services. If requested by the client, Registrant may recommend the services of other professionals for implementation purposes, including the Registrant's representative in her individual capacity as a licensed insurance agent. (*See* disclosure at Item 10 C.). The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from the Registrant. **Please Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. Nothing in this brochure may be interpreted to limit or modify the investment adviser's fiduciary duties to its clients and nothing in this brochure shall be deemed a waiver of any right or remedy that a client may have under federal or state securities laws. Federal and state securities laws impose liabilities under certain circumstances on persons who act in good faith. **Please Also Note:** It remains the client's responsibility to promptly notify the Registrant if there is ever any change in

his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Registrant's previous recommendations and/or services.

RETIREMENT CONSULTING

The Registrant also provides non-discretionary pension consulting services, pursuant to which it assists sponsors of self-directed retirement plans with the selection and/or monitoring of investment alternatives (generally open-end mutual funds) from which plan participants shall choose in self-directing the investments for their individual plan retirement accounts. In addition, to the extent requested by the plan sponsor, the Registrant shall also provide participant education designed to assist participants in identifying the appropriate investment strategy for their retirement plan accounts.

MISCELLANEOUS

Limitations of Financial Planning and Non-Investment Consulting/Implementation Services. As indicated above, to the extent requested by the client, Registrant may provide financial planning and related consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. Registrant **does not** serve as a law firm or accounting firm, and no portion of its services should be construed as legal or accounting services. Accordingly, Registrant **does not** prepare estate planning documents or tax returns. To the extent requested by a client, Registrant may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance agents, etc.), including representatives of Registrant in their separate individual capacities as licensed insurance agents. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from Registrant and/or its representatives. **Please Note:** If the client engages any recommended unaffiliated professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. **Please Also Note-Conflict of Interest:** The recommendation by Registrant's representative that a client purchase an insurance commission product through Registrant's representative in his/her separate and individual capacity as an insurance agent, presents a **conflict of interest**, as the receipt of commissions may provide an incentive to recommend insurance products based on commissions to be received, rather than on a particular client's need. No client is under any obligation to purchase any insurance commission products through such a representative. Clients are reminded that they may purchase insurance products recommended by Registrant through other, non-affiliated insurance agents. **Registrant's Chief Compliance Officer, Joseph F. Rinaldi, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

Retirement Rollovers-Potential for Conflict of Interest: A client or prospective client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): (i) leave the money in the former employer's plan, if permitted, (ii) roll over the assets to the new employer's plan, if one is available and rollovers are permitted, (iii) roll over to an Individual Retirement Account ("IRA"), or (iv) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences). If the Registrant recommends that a client roll over their retirement plan assets into an account to be managed by the Registrant, such a recommendation creates a conflict of interest if the Registrant will earn an advisory fee on the rolled over assets. **No client is under any obligation to roll over retirement plan assets to an account managed by Registrant. The Registrant's Chief Compliance Officer, Joseph F. Rinaldi, remains available to address any questions that a client**

or prospective client may have regarding the potential for conflict of interest presented by such rollover recommendation.

Please Note: Inverse/Enhanced Market Strategies. The Registrant may utilize long and short mutual funds and/or exchange traded funds that are designed to perform in either an: (1) inverse relationship to certain market indices (at a rate of 1 or more times the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk; and (2) enhanced relationship to certain market indices (at a rate of 1 or more times the actual result of the corresponding index) as an investment strategy and/or for the purpose of increasing gains in an advancing market. There can be **no assurance** that any such strategy will prove profitable or successful. In light of these enhanced risks/rewards, a client may direct the Registrant, in writing, not to employ any or all such strategies for his/her/their/its accounts.

Educational Seminars. The Registrant may provide educational seminars and workshops about general financial planning and investment advisory topics on an infrequent and limited basis. The Registrant does not receive any form of compensation in exchange for this service.

Non-Discretionary Service Limitations. Clients that determine to engage Registrant on a non-discretionary investment advisory basis **must be willing to accept** that Registrant cannot effect any account transactions without obtaining prior consent to such transaction(s) from the client. Thus, in the event that Registrant would like to make a transaction for a client's account (including in the event of an individual holding or general market correction), and the client is unavailable, the Registrant will be unable to effect the account transaction(s) (as it would for its discretionary clients) without first obtaining the client's consent.

Please Note: Cash Positions. At any specific point in time, depending upon perceived or anticipated market conditions/events (there being **no guarantee** that such anticipated market conditions/events will occur), the Registrant may maintain cash positions for defensive purposes. All cash positions (money markets, etc) shall be included as part of assets under management for purposes of calculating the Registrant's advisory fee.

Please Note: Diversification Limitations: The Registrant's managed portfolios may include concentrated investment positions that could enhance portfolio risk and reward. Accounts managed by the Registrant may not constitute a fully diversified or balanced portfolio that is suitable for investment of all of the client's assets **The Registrant's Chief Compliance Officer, Joseph F. Rinaldi, remains available to address any questions that a client or prospective client may have regarding investment diversification and portfolio risk issues or concerns.**

Client Obligations. In performing its services, Registrant shall not be required to verify any information received from the client or from the client's other designated professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains their responsibility to promptly notify Registrant if there is ever any change in their financial situation or investment objectives for the purpose of reviewing/evaluating/revising Registrant's previous recommendations and/or services.

Disclosure Statement. A copy of the Registrant's written Brochure as set forth on Part 2 of Form ADV shall be provided to each client prior to, or contemporaneously with, the

execution of the *Investment Advisory Agreement or Financial Planning and Consulting Agreement*. Any client who has not received a copy of Registrant's written Brochure at least 48 hours prior to executing the *Investment Advisory Agreement or Financial Planning and Consulting Agreement* shall have five business days subsequent to executing the agreement to terminate the Registrant's services without penalty.

- C. The Registrant shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, the Registrant shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at anytime, impose reasonable restrictions, in writing, on the Registrant's services.
- D. The Registrant does not participate in a wrap fee program.
- E. As of February 28, 2017 the Registrant had \$52,135,201 in assets under management on a discretionary basis and \$22,316,557 in assets under management on a nondiscretionary basis.

Item 5 Fees and Compensation

- A. The client can determine to engage the Registrant to provide discretionary and/or non-discretionary investment advisory services on a *fee-only* basis.

INVESTMENT ADVISORY SERVICES

If a client determines to engage the Registrant to provide discretionary and/or non-discretionary investment advisory services on a negotiable *fee-only* basis, the Registrant's annual investment advisory fee shall be based upon a percentage (%) of the market value and type of assets placed under the Registrant's management (between negotiable and 2.00%) as follows:

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
\$100,000 to \$250,000	2.00%
\$250,001 to \$500,000	1.75%
\$500,001 to \$750,000	1.50%
\$750,001 to \$1,000,000	1.25%
\$1,000,001 to \$5,000,000	1.00%
\$5,000,001 to \$10,000,000	0.75%
\$10,000,001 plus	0.60%

Registrant's annual investment advisory fee shall include investment advisory services, and, to the **extent specifically requested** by the client, financial planning and consulting services. In the event that the client requires extraordinary planning and/or consultation services (to be determined in the sole discretion of the Registrant), the Registrant may determine to charge for such additional services, the dollar amount of which shall be separately agreed to in a separate Financial Planning Agreement executed by and between the Registrant and the client..

FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)

To the extent specifically requested by a client, the Registrant *may* determine to provide financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone fee basis. Registrant's planning and consulting fees are negotiable, but generally are performed at an annual rate between \$2,000 and \$5,000 or from \$250 to \$500 on an hourly rate basis. Such fees may be reduced or increased, in the Registrant's sole discretion, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s). Generally, fees shall be greater the more time a relationship is expected to take and more complex a client's situation. A client with many descendants and trusts will likely incur a higher fee for estate and financial planning services. In addition, a client with more assets, real estate, IRAs and 401ks may incur higher fees. The Registrant will discuss fees with the client in advance of the relationship. In the event the Registrant expects the fee to vary materially from the work performed for a client prior to the services being rendered in each successive year, the Registrant will notify the client, and may request an amendment to the contract or a new contract be entered. The fees for the financial planning and consulting services are due quarterly in arrears.

- B. Clients may elect to have the Registrant's advisory fees deducted from their custodial account. Both Registrant's *Investment Advisory Agreement* and the custodial/ clearing agreement may authorize the custodian to debit the account for the amount of the Registrant's investment advisory fee and to directly remit that management fee to the Registrant in compliance with regulatory procedures. In the limited event that the Registrant bills the client directly, payment is due upon receipt of the Registrant's invoice. The Registrant shall deduct fees and/or bill clients quarterly in arrears, based upon the market value of the assets on the last business day of the previous quarter.
- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, the Registrant shall generally recommend that Charles Schwab and Co., Inc. ("*Schwab*") serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as *Schwab* charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). In addition to Registrant's investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses). When beneficial to the client, individual fixed-income and/or equity transactions may be effected through broker-dealers with whom Registrant and/or the client have entered into arrangements for prime brokerage clearing services, including effecting certain client transactions through other SEC registered and FINRA member broker-dealers (in which event, the client generally will incur both the transaction fee charged by the executing broker-dealer and a "tradeaway" fee charged by *Schwab*). Please also refer to Item 12 with respect to brokerage practices.
- D. Registrant's annual investment advisory fee shall be prorated and paid quarterly, in arrears, based upon the market value of the assets on the last business day of the previous quarter. The Registrant generally charges an annual financial planning fee of \$2,000 to \$5,000 for all new financial planning clients. The Registrant, in its sole discretion, may reduce or waive its annual financial planning fee based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of

assets to be managed, related accounts, account composition, negotiations with client, etc) and instead charge a \$100 minimum annual fee. The Registrant does not generally have any minimum account size requirements, but reserves the rights to select its clients.

The *Investment Advisory Agreement* between the Registrant and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination, the Registrant shall debit the account for the pro-rated portion of the unpaid advisory fee based upon the number of days that services were provided during the billing quarter.

The Financial Planning Agreement will continue in effect until terminated by either party upon receipt of written notice. Upon termination, the Registrant shall calculate any fees owed and send the client an itemized invoice to the client. Upon payment of the final invoice, the Registrant will deliver any remaining final work product. The Registrant reserves the right to retain any partially prepared work product, as the receipt of any partially prepared planning services may be materially misleading or incomplete to a client. Where the Registrant determines that a partial delivery of a financial plan would not be misleading, it may choose to deliver such partial financial plan.

- E. Neither the Registrant, nor its representatives accept compensation from the sale of securities or other investment products.

Item 6 Performance-Based Fees and Side-by-Side Management

Neither the Registrant nor any supervised person of the Registrant accepts performance-based fees.

Item 7 Types of Clients

The Registrant's clients shall generally include individuals, business entities, pensions and profit sharing plans, trusts, estates and charitable organizations. Please see Item 5 for a complete disclosure on our account minimums and fees. **Please Note:** Similar advisory services may be available from other investment advisers for similar or lower fees. **ANY QUESTIONS:** Registrant's Chief Compliance Officer, Joseph F. Rinaldi, remains available to address any questions that a client may have regarding its advisory fee schedule.

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

- A. The Registrant may utilize the following methods of security analysis:
- **Charting** - (analysis performed using patterns to identify current trends and trend reversals to forecast the direction of prices)
 - **Fundamental** - (analysis performed on historical and present data, with the goal of making financial forecasts)
 - **Technical** – (analysis performed on historical and present data, focusing on price and trade volume, to forecast the direction of prices)
 - **Cyclical** – (analysis performed on historical relationships between price and market trends, to forecast the direction of prices)

The Registrant may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Trading (securities sold within thirty (30) days)
- Margin Transactions (use of borrowed assets to purchase financial instruments)
- Options (contract for the purchase or sale of a security at a predetermined price during a specific period of time)
- Short Selling (contracted sale of borrowed securities with an obligation to make the lender whole).

Please Note: Investment Risk. Investing in securities involves a risk of loss that clients should be prepared to bear. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by the Registrant) will be profitable or equal any specific performance level(s).

- B. The Registrant's methods of analysis and investment strategies do not present any *significant* or *unusual* risks. **Please note**, however, every method of analysis has its own inherent risks. To perform an accurate market analysis the Registrant must have access to current/new market information. The Registrant has no control over the dissemination rate of market information; therefore, unbeknownst to the Registrant, certain analyses may be compiled with outdated market information, severely limiting the value of the Registrant's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

The Registrant's primary investment strategies - Long Term Purchases, Short Term Purchases, and Trading - are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy. Trading, an investment strategy that requires the purchase and sale of securities within a thirty (30) day investment time period, involves a very short investment time period but will incur higher transaction costs when compared to a short term investment strategy and substantially higher transaction costs than a longer term investment strategy.

In addition to the fundamental investment strategies discussed above, the Registrant may also implement and/or recommend –use of margin, options, and/or short selling transactions. Each of these strategies has a high level of inherent risk. (*See* discussion below).

Margin Transactions. A margin transaction strategy, in which an investor uses borrowed assets to purchase financial instruments, involves a high level of inherent risk. The investor generally obtains the borrowed assets by using other securities as collateral

for the borrowed sum. The effect of purchasing a security using margin is to magnify any gains or losses sustained by the purchase of the financial instruments on margin. **Please note:** To the extent that a client authorizes the use of margin, and margin is thereafter employed by the Registrant in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to the Registrant may be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential **conflict of interest** whereby the client's decision to employ margin may correspondingly increase the management fee payable to the Registrant. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

Options Strategies. The use of options transactions as an investment strategy involves a high level of inherent risk. Option transactions establish a contract between two parties concerning the buying or selling of an asset at a predetermined price during a specific period of time. During the term of the option contract, the buyer of the option gains the right to demand fulfillment by the seller. Fulfillment may take the form of either selling or purchasing a security depending upon the nature of the option contract. Generally, the purchase or the recommendation to purchase an option contract by the Registrant shall be with the intent of offsetting/"hedging" a potential market risk in a client's portfolio. **Please Note:** Although the intent of the options-related transactions that may be implemented by the Registrant is to hedge against principal risk, certain of the options-related strategies (i.e. straddles, short positions, etc), may, in and of themselves, produce principal volatility and/or risk. Thus, a client must be willing to accept these enhanced volatility and principal risks associated with such strategies. In light of these enhanced risks, client may direct the Registrant, in writing, not to employ any or all such strategies for his/her/their/its accounts.

For detailed information on the use of options and option strategies, please refer to the Option Clearing Corp.'s Option Disclosure Document, which can be found at: <http://www.optionsclearing.com/components/docs/riskstoc.pdf>
Hard copies may be ordered by calling 1-888-678-4667 or writing OCC, 1 North Wacker Drive, Suite 500 Chicago, Il 60606.

Short Sales. Short selling, which involves the selling of assets that the investor does not own, is an investment strategy with a high level of inherent risk. The investor borrows the assets from a third party lender (i.e. Broker-Dealer) with the obligation of buying identical assets at a later date to return to the third party lender. Individuals who engage in this activity shall only profit from a decline in the price of the assets between the original date of sale and the date of repurchase. Conversely, the short seller will incur a loss if the price of the assets rises. Other costs of shorting may include a fee for borrowing the assets and payment of any dividends paid on the borrowed assets.

- C. Currently, the Registrant primarily allocates client investment assets among various individual equity (stocks), debt (bonds) and fixed income securities, mutual funds and/or exchange traded funds ("ETFs") (including inverse ETFs and/or mutual funds that are designed to perform in an inverse relationship to certain market indices) and *fee-only* variable annuities, on a discretionary and non-discretionary basis in accordance with the client's designated investment objective(s).

As disclosed above, the Registrant may utilize long and short mutual funds and/or exchange traded funds that are designed to perform in either an: (1) inverse relationship to certain market indices (at a rate of 1 or more times the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk; and (2) enhanced relationship to certain market indices (at a rate of 1 or more times the actual result of the corresponding index) as an investment strategy and/or for the purpose of increasing gains in an advancing market. There can be **no assurance** that any such strategy will prove profitable or successful. In light of these enhanced risks/rewards, a client may direct the Registrant, in writing, not to employ any or all such strategies for his/her/their/its accounts. (*See* Item 4 B for related disclosures).

Item 9 Disciplinary Information

- A. The Registrant has not been the subject of any criminal or civil action in a domestic, foreign or military court of competent jurisdiction.
- B. The Registrant has not been the subject of any proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority.
- C. The Registrant has not been the subject of any proceeding before a self-regulatory organization.

Item 10 Other Financial Industry Activities and Affiliations

- A. Neither the Registrant, nor its representatives, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither the Registrant, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.
- C.

Certified Public Accounting Firm. Certain of the Registrant's representative are also employed by or have ownership interests in certified public accounting firms. Specifically, to the extent that any of these individuals provides accounting and/or tax preparation services to any clients, including clients of the Registrant, all such services shall be performed by these firms, in their individual capacity, independent of the Registrant, for which services Registrant shall not receive any portion of the fees charged. It is expected that the members of these account firms may recommend the Registrant's services to certain clients. The accounting firms are not involved in providing investment advice on behalf of the Registrant, nor do they hold themselves out as providing advisory services on behalf of the Registrant. These relationships present a *conflict of interest*. No individual or entity is required to utilize the Registrant or any recommended accounting firm's services. **The Registrant's Chief Compliance Officer, Joseph F. Rinaldi, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

Licensed Insurance Agent. The Registrant's representative, Carol Rose Flaum in

her individual capacity, is a licensed insurance agent, and may recommend the purchase of certain insurance-related products on a commission basis. As referenced in Item 4 B above, clients can engage certain of Registrant's representatives to effect insurance transactions on a commission basis.

Conflict of Interest: The recommendation by either Ms. Flaum, that a client purchase a securities or insurance commission product presents a *material conflict of interest*, as the receipt of commissions may provide an incentive to recommend investment products based on commissions received, rather than on a particular client's need. No client is under any obligation to purchase any commission products from Ms. Flaum. Clients are reminded that they may purchase insurance products recommended by Registrant through other, non-affiliated insurance agents. **The Registrant's Chief Compliance Officer, Joseph F. Rinaldi, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

Real Estate Broker. Ms. Flaum in her individual capacity, is a licensed real estate broker and the owner of Carol Rose Realty. Ms. Flaum may recommend the purchase of certain real estate related investments on a commission basis. **Conflict of Interest:** The recommendation by Ms. Flaum that a client purchase a real estate property on a commission basis presents a *conflict of interest*, as the receipt of commissions may provide an incentive to recommend real estate properties based on commissions to be received, rather than on a particular client's need. No client is under any obligation to purchase any real estate properties from Ms. Flaum. Clients are reminded that they may purchase real estate recommended by Ms. Flaum through other, non-affiliated real estate agents. **The Registrant's Chief Compliance Officer, Joseph F. Rinaldi, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

- D. The Registrant does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients.

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

- A. The Registrant maintains an investment policy relative to personal securities transactions. This investment policy is part of Registrant's overall Code of Ethics, which has been adopted as a best practice, and which serves to establish a standard of business conduct for all of Registrant's Representatives that is based upon fundamental principles of openness, integrity, honesty and trust. A copy of Registrant's Code of Ethics is available upon request.

In accordance with best practices, the Registrant also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by the Registrant or any person associated with the Registrant.

- B. Neither the Registrant nor any related person of Registrant recommends, buys, or sells for client accounts, securities in which the Registrant or any related person of Registrant has a material financial interest.
- C. The Registrant and/or representatives of the Registrant *may* buy or sell securities that are

also recommended to clients. This practice may create a situation where the Registrant and/or representatives of the Registrant are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as “scalping” (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if the Registrant did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, “front-running” (i.e., personal trades executed prior to those of the Registrant’s clients) and other potentially abusive practices.

The Registrant has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of the Registrant’s “Access Persons”. The Registrant’s securities transaction policy requires that Access Person of the Registrant must provide the Chief Compliance Officer or his/her designee with a written report of the their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person’s current securities holdings at least once each twelve (12) month period thereafter on a date the Registrant selects; provided, however that at any time that the Registrant has only one Access Person, he or she shall not be required to submit any securities report described above.

- D. The Registrant and/or representatives of the Registrant *may* buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where the Registrant and/or representatives of the Registrant are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11 C, the Registrant has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Registrant’s Access Persons.

Item 12 Brokerage Practices

- A. In the event that the client requests that the Registrant recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct the Registrant to use a specific broker-dealer/custodian), Registrant generally recommends that investment management accounts be maintained at *Schwab*. Prior to engaging Registrant to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with Registrant setting forth the terms and conditions under which Registrant shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that the Registrant considers in recommending *Schwab* (or any other broker-dealer/custodian to clients) include historical relationship with the Registrant, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by Registrant's clients shall comply with the Registrant's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where the Registrant determines, in good faith, that the commission/transaction fee is reasonable in relation to the value of the brokerage and research services received. In seeking best

execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of broker-dealer services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Registrant will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Registrant's investment management fee. The Registrant's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

1. Research and Additional Benefits

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, Registrant may receive from *Schwab* (or another broker-dealer/custodian, investment platform, unaffiliated investment manager, mutual fund sponsor, or vendor) without cost (and/or at a discount) support services and/or products, certain of which assist the Registrant to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by the Registrant may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by Registrant in furtherance of its investment advisory business operations. Registrant receives a benefit because it does not have to produce or pay for the research, products or services, and therefore may have an incentive to select or recommend a broker-dealer based on Registrant's in receiving the research or other products or services, rather than on its clients' interest in receiving most favorable execution."

As indicated above, certain of the support services and/or products that *may* be received may assist the Registrant in managing and administering client accounts. Others do not directly provide such assistance, but rather assist the Registrant to manage and further develop its business enterprise.

Registrant's clients do not pay more for investment transactions effected and/or assets maintained at *Schwab* as a result of this arrangement. There is no corresponding commitment made by the Registrant to *Schwab* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

The Registrant's Chief Compliance Officer, Joseph F. Rinaldi, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.

2. The Registrant does not receive referrals from broker-dealers.
3. The Registrant does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer).

In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Registrant will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Registrant. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

Please Note: In the event that the client directs Registrant to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through Registrant. Higher transaction costs adversely impact account performance. Higher transaction costs adversely impact account performance. **Please Also Note:** Transactions for directed accounts will generally be executed following the execution of portfolio transactions for non-directed accounts.

The Registrant's Chief Compliance Officer, Joseph F. Rinaldi, remains available to address any questions that a client or prospective client may have regarding the above arrangement.

- B. To the extent that the Registrant provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless the Registrant decides to purchase or sell the same securities for several clients at approximately the same time. The Registrant may (but is not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among the Registrant's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. The Registrant shall not receive any additional compensation or remuneration as a result of such aggregation.

Item 13 Review of Accounts

- A. For those clients to whom Registrant provides investment supervisory services, account reviews are conducted on an ongoing basis by the Registrant's Principals and/or representatives affiliated with the particular client account to compare client investment objectives with current allocations. All investment supervisory clients are advised that it remains their responsibility to advise the Registrant of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with the Registrant on an annual basis.
- B. The Registrant *may* conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.

- C. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Registrant may also provide a written periodic report summarizing account activity and performance in its sole discretion, which may be issued as often as quarterly.

Item 14 Client Referrals and Other Compensation

- A. As referenced in Item 12.A.1 above, the Registrant may receive an economic benefit from *Schwab*. The Registrant, without cost (and/or at a discount), may receive support services and/or products from *Schwab*.

Registrant's clients do not pay more for investment transactions effected and/or assets maintained at *Schwab* as a result of this arrangement. There is no corresponding commitment made by the Registrant to *Schwab* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

The Registrant's Chief Compliance Officer, Joseph F. Rinaldi, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.

- B. The Registrant does not compensate, directly or indirectly, any person, other than its representatives, for client referrals.

Item 15 Custody

The Registrant shall have the ability to have its advisory fee for each client debited by the custodian. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Registrant may also provide a written periodic report summarizing account activity and performance. Clients should carefully review statements received from the custodian.

Please Note: To the extent that the Registrant provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by the Registrant with the account statements received from the account custodian. **Please Also Note:** The account custodian does not verify the accuracy of the Registrant's advisory fee calculation.

Item 16 Investment Discretion

The client can determine to engage the Registrant to provide investment advisory services on a discretionary basis. Prior to the Registrant assuming discretionary authority over a client's account, client shall be required to execute an *Investment Advisory Agreement*, naming the Registrant as client's attorney and agent in fact, granting the Registrant full authority to buy, sell, or otherwise effect investment transactions involving the assets in

the client's name found in the discretionary account. Registrant has discretion to select the broker/dealer to be utilized to effect investment transactions. Please refer to Item 12 above for more information regarding Registrant's brokerage practices.

Clients who engage the Registrant on a discretionary basis may, at anytime, impose restrictions, **in writing**, on the Registrant's discretionary authority (i.e. limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe the Registrant's use of margin, etc.).

Item 17 Voting Client Securities

- A. The Registrant does not vote client proxies. Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets.
- B. Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact the Registrant to discuss any questions they may have with a particular solicitation.

Item 18 Financial Information

- A. The Registrant does not solicit fees of more than \$500, per client, six months or more in advance.
- B. The Registrant is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. The Registrant has not been the subject of a bankruptcy petition.

Item 19 Requirements for State-Registered Advisers

- A. The Registrant is owned by Joseph F. Rinaldi who is also the Registrant's President. For additional information about Mr. Rinaldi, please see Mr. Rinaldi's Brochure Supplement.
- B. As referenced in Item 10.C above, certain of the firm's representatives are affiliated with a certified public accounting firm.
- C. Neither the Registrant nor its Representatives are compensated on a performance fee basis.
- D. The Registrant and Mr. Rinaldi were subject to a Regulatory Action by the District of Columbia, Department of Insurance, Securities & Banking ("DISB"). On June 22, 2004, the DISB, Mr. Rinaldi and the Registrant entered into a Cease and Desist Order requiring the Registrant and Mr. Rinaldi to take certain

corrective actions. This was a result of a preliminary investigation by DISB that found evidence of violations of the Securities Act of 2000, the rules pertaining to investment advisers and Investment Adviser Representative and the rule governing securities offerings in the District of Columbia. The Registrant and Mr. Rinaldi, without admitting or denying the allegations consented to an entry of an order, which included certain corrective actions. Neither the Registrant nor Mr. Rinaldi had any fines levied against them. All corrective actions have been completed by the Registrant and Mr. Rinaldi.

The Registrant and Mr. Rinaldi were subject to a Regulatory Action by the Maryland Attorney General, Securities Division. On June 22, 2004, the Registrant and Mr. Rinaldi, without admitting or denying any allegations, entered into a Consent Order with the Securities Division of the Maryland Attorney General, which provided that: 1. The Registrant acted as an Investment Adviser and Investment Adviser Representative without registering with the State of Maryland; 2. The Registrant acted as a federal covered adviser without filing a notice of registration with the State of Maryland; 3. The Registrant deducted fees directly from client accounts without complying with the requisite safeguards; and 4. The Registrant offered unregistered securities to the public on its website in violation of Section 11-501 of the Maryland Securities Act. The Registrant paid the State of Maryland \$3,594, which represents payment of registration fees owed and interest. Additionally, the Registrant and Mr. Rinaldi agreed to take certain corrective action, including retaining a compliance officer/supervisor, not employing unregistered solicitors, retaining an independent consultant to audit the Registrant's books and records. All corrective actions have been completed by the Registrant and Mr. Rinaldi, including the completion of the independent consultant compliance audits. The Registrant has not been subject to any other regulatory proceeding.

- E. Neither the Registrant nor its representatives have any relationship or arrangement with any issuer of securities.

ANY QUESTIONS: Quantum Financial Advisors Chief Compliance Officer, Joseph F. Rinaldi, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.