



HK FINANCIAL SERVICES

# Firm Brochure

## Form ADV Part 2A

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12/14/2020

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This firm brochure provides information about the qualifications and business practices of HK Financial Services, Inc. (“HKFS”). If you have any questions about the contents of this brochure, please contact us at 563-582-2855 or at [compliance@hkfs.com](mailto:compliance@hkfs.com). The information in this firm 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 HKFS is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for HKFS is 106237.

HKFS is a Registered Investment Adviser. However, registration with the SEC or any state securities authority does not imply a certain level of skill or training.

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## Summary of Material Changes

### OVERVIEW

This “Summary of Material Changes” section addresses only material changes since our Brochure was last delivered to you or posted on the SEC’s website (see the cover page for the SEC website address). We provide updates regarding material changes, if any, at least annually. If we have no material changes, this Brochure will remain current. Please retain a copy until we provide you with an updated Brochure.

### MATERIAL CHANGES

#### Item 4: Advisory Business

- We previously updated this Item to reflect a change in the firm’s ownership following the acquisition of HKFS by a wholly owned indirect subsidiary of Blucora, Inc. (NASDAQ: BCOR). Effective as of July 1, 2020, the subsidiary of Blucora acquired all HKFS’s stock from the firm’s previously shareholders, which had consisted of the partners/employees of Honkamp Krueger & Co., Inc. and HKFS.
- We’ve updated this Item to disclose that, effective as of October 1, 2020, those HKFS Advisory Representatives previously registered as securities representatives of the broker-dealer ProEquities, Inc. have transferred their registrations transferred to the broker-dealer Avantax Investment Services<sup>SM</sup>, a common-control affiliate of HKFS.

#### Item 5: Fees and Compensation

- We’ve updated this Item to disclose that, effective as of October 1, 2020, those HKFS Advisory Representatives previously registered as securities representatives of the broker-dealer ProEquities, Inc. have transferred their registrations transferred to the broker-dealer Avantax Investment Services<sup>SM</sup>, a common-control affiliate of HKFS.

#### Item 10: Other Financial Industry Activities and Affiliations

- We previously updated this Item to reflect changes to our relationship with the entity Honkamp Krueger & Co., Inc. Effective with Blucora’s acquisition of HKFS on July 1, 2020, Honkamp Krueger & Co., Inc. is no longer considered a controlling affiliate of HKFS.
- We also previously updated this Item to reflect changes to the entities with whom we are common control affiliates. Effective with Blucora’s acquisition of HKFS, Avantax Investment Services<sup>SM</sup>, Avantax Advisory Services<sup>SM</sup>, Avantax Insurance Services<sup>SM</sup>, and Avantax Insurance Agency, LLC. are now considered common-control affiliates of HKFS.

#### Item 15: Custody

- We’ve updated this Item to disclose that we have constructive custody of the assets of retirement plan clients to which we provide our Retirement Plan Services.

### HOW TO OBTAIN ADDITIONAL COPIES OF OUR BROCHURE

Additional copies of our Brochure are available without charge at the SEC’s website, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov), or at our firm website, [www.hkfs.com](http://www.hkfs.com). You may also make a written request for copies of our Brochure (and/or the Brochure Supplement(s) of our licensed Financial Professionals) to our corporate office by postal mail at 3390 Asbury Road, Dubuque, Iowa 52002, or by phone at 800-791-8994 (toll free) or 563-582-2855, or by email at [info@hkfs.com](mailto:info@hkfs.com).



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## **Item 4: Advisory Business**

Honkamp Krueger Financial Services, Inc., also doing business as HK Financial Services, Inc. and as HKFS (“HKFS”, “us”, “we”, “our”), is an independent investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (“Advisers Act”). As a fiduciary under the Advisers Act, we owe a duty to act in the best interests of our clients (“Clients”, “you”, “your”) and must disclose any conflicts that might limit or prevent us from meeting that duty.

HKFS is a professional corporation established in 1995 under the laws of Iowa. HKFS is a wholly owned subsidiary of Avantax WM Holdings, Inc., and a wholly owned indirect subsidiary of Blucora, Inc., a publicly traded company (NASDAQ: BCOR). Common-control financial institution affiliates of HKFS include: Avantax Investment Services, Inc., a SEC-registered broker-dealer and member FINRA & SIPC (“Avantax BD”), Avantax Advisory Services, Inc., a SEC-registered investment adviser (“Avantax IA”), and Avantax Insurance Services, LLC. & Avantax Insurance Agency, LLC., licensed insurance agencies (collectively, “Avantax Wealth Management Entities”)

HKFS was founded by the CPA firm Honkamp Krueger & Co., P.C. with the goal of providing a more holistic wealth management experience for their CPA clients. Since then, HKFS has expanded upon that model by collaborating with independent, nonaffiliated certified public accounting firms (“CPA firms”) and their accounting professionals (“CPAs”) to help make asset management and financial planning an essential part of their firm’s bundle of service offerings. HKFS provides investment advisory services to individuals, families, trusts & estates, business entities, and charitable organizations, among others, and our consultative approach involves combining investment planning, retirement planning, insurance planning, and estate planning with tax planning.

In January of 2020, Blucora acquired HKFS from Honkamp Krueger & Co. Blucora consummated the acquisition on July 1, 2020. Despite this change, HKFS continues to operate as an independent investment adviser separate from the operations of Avantax Wealth Management Entities.

### **OUR FINANCIAL PROFESSIONALS**

Most of our client relationships originate from referrals made to us by those CPAs with whom we collaborate. Many of those CPAs also registered with HKFS as investment advisor representatives (“IAR”) and execute an IAR Agreement to receive a share of the asset-based management fee generated from the services provided to clients.

Certain HKFS employees, referred to as financial planning consultants (“FPCs”), work with CPA firms and IARs to help provide services specific to the wealth management needs of clients and will serve as your primary advisor. Our FPCs are generally individuals with financial services experience who prefer a more consultative and collaborative approach to the delivery of investment advisory services versus a sales-driven or transactional approach. FPCs are assigned to one or more CPA firms, typically by geographical region, and help them and their IARs with delivering services in their respective regions. We have FPCs located in Dubuque as well as in several other branch locations throughout the Midwest, Northern Plains, and the Southeast. HKFS continues to add resources in the areas of technology, portfolio reviews, proposals, and client onboarding to help support the IARs and FPCs (collectively, “Advisory Representatives”).

Other HKFS employees working behind the scenes help to support our Advisory Representatives in delivering our services and advice to you. Internal analysts help assemble, review, and monitor the individual components of client investment portfolios. Financial planners design investment proposals and financial plans, especially for those clients with unique needs. And traders perform all transaction activity for our clients’ advisory accounts as a centralized trading desk. Our Advisory Representatives, together with our internal analysts, financial planners, and traders (collectively, “Financial Professionals”), make up your wealth management team.

HKFS has established our Investment Advisory Committee (“IAC” or “Committee”), a centralized decision-making body that serves to standardize the implementation of our investment processes and philosophy in order to help better ensure that we are delivering our services with the same standard of care across all our clients - no matter the Advisory Representative acting on our behalf. The Committee is headed by our Chief Investment Officer, and while the official Committee members consists of individuals with substantial industry experience as well as highly



technical and professional qualifications, all Financial Professionals across the firm are encouraged to attend and participate in IAC meetings in order to offer their own perspectives. The Committee is primarily responsible for monitoring the current state of the economy and markets, researching and selecting the various investments and investment strategies for our portfolio models, and analyzing the performance of our models.

You can find additional details concerning your licensed Financial Professionals in their respective Brochure Supplement(s). Please see the “*Summary of Material Changes*” section of this Brochure for instructions on how to request copies of Brochure Supplements.

### OUR ADVISORY SERVICES

#### Investment Advisory Services

Through execution of the Discretionary Asset Management Agreement (“DAMA”), you appoint us to provide discretionary management of your assets according to your objectives. Client assets are custodied in brokerage accounts opened by HKFS on your behalf at broker-dealers offering custody platforms to independent advisors such as HKFS. Clients also execute separate written agreements with your applicable custodian.

HKFS carefully tailors your portfolio according to your personal needs and other unique circumstances. Our Advisory Representatives first assess your personal situation, financial goals, risk tolerances, liquidity needs, tax impact, and time horizon by way of an information-gathering process that consists of in-person conversations, review of your current portfolio, and approved collaboration with your accountant and other professional advisors, with the goal of finding the asset allocation structure that is suitable to you. Our objective is to optimize your portfolio’s performance and diversification, while at the same time reducing your overall risk exposure and tax liability. We do not guarantee that you’ll achieve your particular objectives; but we do preach that you can benefit by focusing on the long term and by not chasing short-term profits. Portfolios may have some customization designed specifically for you, including individual stocks, bonds and/or other securities. The balance of stock and bond exposure for each account will depend on your instructions included in your Investment Policy Statement (“IPS”). Portfolio construction can also take into consideration your other investments held outside of HKFS (for example, your family business). You may place restrictions on certain securities or the types of securities that we utilize for your portfolio. Your directions are recorded in your IPS. Each IPS is reviewed and updated with you based on an agreed upon schedule.

Once your IPS has been prepared and your portfolio constructed, HKFS utilizes the discretionary authority you grant to us to manage your assets. HKFS utilizes stock and bond models that have recommended allocations to various styles and categories of securities. The Committee may recommend strategic adjustments to style allocations based on changing market conditions. In addition, the Committee monitors and adjusts investment vehicles that represent each style based on style weighting changes or relative performance to peers. Internal analysts then consistently monitor these investments to verify that they continue to meet the performance criteria set forth by the IAC.

To a limited degree, derivatives, such as structured notes, collateralized mortgage and other debt obligations, as well as callable bonds and certificates of deposit, might also be utilized to meet your needs. HKFS will consider other investments by request and on a case-by-case basis, and may choose not to implement them if we believe they are inconsistent with your IPS, or our overall management style.

Rebalancing helps ensure that the allocation determined to be appropriate to your needs continues to be reflected in your account(s). HKFS will establish the frequency of rebalancing for your portfolio. Also, our Advisory Representatives will meet with you as frequently as needed to review and, where appropriate, adjust your allocation and/or IPS. HKFS will review your progress towards your stated goals, including the accuracy of those goals in light of changes to your own personal circumstances as well as to the current economic environment and market outlook. Adjustments will be made to your IPS and/or asset allocation, if appropriate. See Review of Accounts for more details.



*HKFS Compass.* HKFS also offers HKFS Compass, an automated investment program through which clients are invested in a range of investment strategies we have constructed and manage, each consisting of a portfolio of ETFs and a cash allocation. Clients may instruct us to exclude up to three ETFs from their portfolio. Client portfolios are held in a brokerage account opened by clients at Charles Schwab & Co., Inc. (“CS&Co”). We use the Institutional Intelligent Portfolios<sup>®</sup> platform (“IIP Platform”), offered by Schwab Performance Technologies (“SPT”), a software provider to independent investment advisers and an affiliate of CS&Co., to operate the Program. We are independent of and not owned by, affiliated with, or sponsored or supervised by SPT, CS&Co., or their affiliates (collectively, “Schwab”). We, and not Schwab, are the client’s investment adviser and primary point of contact with respect to HKFS Compass. We are solely responsible, and Schwab is not responsible, for determining the appropriateness of HKFS Compass for the client, choosing a suitable investment strategy and portfolio for the client’s investment needs and goals, and managing that portfolio on an ongoing basis. We have contracted with SPT to provide us with the IIP Platform, which consists of technology and related trading and account management services for HKFS Compass. The IIP Platform enables us to make HKFS Compass available to clients online and includes a system that automates certain key parts of our investment process (the “System”). Based on information the client provides to us, we will recommend a portfolio via the System. The client may then indicate an interest in a portfolio that is one level less or more conservative or aggressive than the recommended portfolio, but we then make the final decision and select a portfolio based on all the information we have about the client. The System also includes an automated investment engine through which we manage the client’s portfolio on an ongoing basis through automatic rebalancing and tax-loss harvesting (if the client is eligible and elects).

We charge clients a fee for our services as described below under *Item 5: Fees and Compensation*. Our fees are not set or supervised by Schwab. Clients do not pay brokerage commissions or any other fees to CS&Co. as part of the Program. Schwab does receive other revenues, including (i) the profit earned by Charles Schwab Bank, a Schwab affiliate, on the allocation to the Schwab Intelligent Portfolios Sweep Program described in the Schwab Intelligent Portfolios Sweep Program Disclosure Statement; (ii) investment advisory and/or administrative service fees (or unitary fees) received by Charles Schwab Investment Management, Inc., a Schwab affiliate, from Schwab ETFs<sup>™</sup> Schwab Funds<sup>®</sup> and Laudus Funds<sup>®</sup> that we select to buy and hold in the client’s brokerage account; (iii) fees received by Schwab from third-party ETFs that participate in the Schwab ETF OneSource<sup>™</sup> program and mutual funds in the Schwab Mutual Fund Marketplace<sup>®</sup> (including certain Schwab Funds and Laudus Funds) in the client’s brokerage account for services Schwab provides; and (iv) remuneration Schwab may receive from the market centers where it routes ETF trade orders for execution.

We do not pay SPT fees for the IIP Platform so long as we maintain \$100 million in client assets in accounts at CS&Co. that are not enrolled in HKFS Compass. If we do not meet this condition, then we pay SPT an annual licensing fee of 0.10% (10 basis points) on the value of our clients’ assets in HKFS Compass. This fee arrangement gives us an incentive to recommend or require that our clients with accounts not enrolled in HKFS Compass be maintained with CS&Co.

*Third-Party Money Managers.* Some of our clients may also utilize independent third-party money managers (“MM”), made available through separately managed account (“SMA”) programs offered through CS&Co. In appropriate cases, these MMs offer specialized asset management expertise or services that HKFS utilizes to manage all or a portion of the client’s portfolio. Once selected, these MMs are granted discretionary authority for that portion of a client’s assets placed with them, are subject to a fiduciary duty to choose and manage investments prudently for the client, including the development of an appropriate investment strategy, and must buy and sell securities to meet those goals (subject to restrictions imposed by the client). Clients may contract directly with the MM, or through a three-party agreement with both us and the MM.

SMA programs allow certain clients to obtain portfolio management services that typically have higher minimum account sizes if the client had engaged the MM off-platform or outside of the program. HKFS has no authority to affect the trading decisions of these MMs once a client decides to participate in these programs, and can only choose whether to engage or terminate the MMs. HKFS may replace MMs on behalf of clients that have given discretionary authority to HKFS. Accounts that have discretionary authority allow HKFS to choose or change any MMs approved for a given platform, without additional approvals from the client. Our internal analysts will evaluate the MMs and investment vehicles to determine whether that MM is suitable for the client, given the appropriate style and allocation. In addition, the IAC performs ongoing due diligence of each individual MM’s performance and



management, continuously reviews the client's account for adherence to objectives outlined with the MM, and will reallocate assets among MMs, if necessary.

Each MM maintains a separate disclosure document outlining their investment vehicles, which is provided to clients. Clients should carefully review these disclosure documents for important and specific details including, among other things, fees, experience, investment objectives and risk guidelines, and disclosure of the MMs' potential conflicts of interest. HKFS does not receive compensation directly or indirectly from these MMs. Our fee is in addition to those of the MM.

*Fee-Based Planning Only.* HKFS offers fee-based financial planning only services for those clients that desire to work with us, but opt not to receive discretionary management of their assets through our investment advisory services. Clients opting for this service will execute a written agreement with us for an agreed upon fee rate. Following roughly the same information-gathering process used for our investment advisory services, our Advisory Representatives will generate a comprehensive financial summary of that client's present financial situation, utilizing a planning software supplied by a third-party vendor, and deliver this financial plan to the client. Once the plan has been delivered, our obligations end and the arrangement terminates - unless the client opts for periodic review of the plan.

### **Wrap Fee Programs**

HKFS does not participate in wrap fee programs.

### **Retirement Plan Services**

*Overview.* Through our Retirement Plan Services ("RPS") division, HKFS provides our investment advisory services to employer-sponsored retirement plans, such as 401(k) plans and profit-sharing plans, and other plan services, which may vary by plan client, but primarily include: plan design, recordkeeping, and employee support services.

*Discretionary Asset Management.* HKFS acts as the ERISA Section 3(38) fiduciary "investment manager" for plan sponsors, and as an ERISA Section 3(21) to the plan participants. We, in turn, acknowledge our status as a fiduciary and assume such fiduciary duties, responsibilities, and obligations.

*Plan Participant Services.* Our RPS team provides optional education and enrollment assistance to plan participants, including guidance on plan investment options and asset allocation models.

*Plan Administrator Support Services.* RPS offers non-fiduciary administrative and recordkeeping services to our plan sponsors that are ERISA Section 3(16) fiduciaries (i.e., administrators) for their respective plans, including:

- Conducting plan sponsor executive reviews
- Designing the plan
- ERISA compliance testing
- Preparing IRS and DOL filings
- Tracking participant vesting
- Monitoring for legislative and regulatory updates
- Drafting and updating the plan document
- Allocating employer contributions
- General plan guidance

In addition, RPS may assist plan sponsors by providing other "ministerial" services, such as mailing of notices, mailing of new hire enrollment kits, and other related tasks.



## ADDITIONAL FINANCIAL SERVICES

### **Avantax Investment Services<sup>SM</sup>**

HKFS offers our clients access to securities, including individual stocks and bonds, mutual funds, variable annuities and alternative investments, held in brokerage accounts with the registered broker-dealer, Avantax Investment Services (“Avantax BD”). (member FINRA, SIPC). While HKFS is not a broker-dealer, we are under common control ownership with Avantax BD, and several of our Advisory Representatives are also registered as securities representatives of Avantax BD (“Avantax RRs”). Through our Avantax RRs, you are provided with the option to invest your assets in managed accounts with HKFS and/or non-discretionary brokerage accounts with Avantax BD. When Avantax RRs meet with you to evaluate your goals, their evaluation will include whether your investment objectives might be better met by investing some (or all) of your assets in an Avantax BD brokerage account. Factors considered might include the anticipated size of your account, your preferred trading strategy (e.g., buy & hold), and the availability of suitable products on the Avantax BD platform, among other factors to the client’s circumstances.

### **Avantax Advisory Services<sup>SM</sup>**

HKFS is also under common control ownership with the registered investment adviser, Avantax IA. Neither HKFS nor any of our Advisory Representatives conduct any of our investment advisory business through Avantax IA. Please see *Item 10: Other Financial Industry Activities and Affiliates* for a more detailed discussion of the potential conflicts posed by our relationship with ProEquities. Please also see *Item 5: Fees and Compensation* for more information on the commissions generated from brokerage accounts.

### **HKFS Risk Management**

HKFS offers our clients access to fixed insurance products, including life and health insurance, annuities, disability income insurance, and long-term care insurance, through insurance planning as part of their overall risk & wealth management strategy. HKFS has been appointed as a general agency by a variety of insurance carriers, selected for their high-quality products and services. Several of our Advisory Representatives have obtained their insurance licenses and have been appointed as brokers for some of the same insurance carriers.

## ASSETS UNDER MANAGEMENT

As of December 31, 2019, HKFS has \$4,052,385,016 in assets under management.



## Item 5: Fees and Compensation

### Investment Advisory Services

Our annual fee is based upon a percentage of assets under management and generally range between 0.70% to 1.50%. HKFS collects a percentage of your assets under our management for each managed account at the beginning or end of a calendar quarter (“Management Fee” or “Fee”). Our maximum fee is illustrated below:

ASSETS UNDER MANAGEMENT	ANNUAL MANAGEMENT FEE
\$1,000,000 and Under	2.50% (Maximum)
Over \$1,000,000	Negotiable

We have account and fee minimums. We impose a minimum annual fee of \$3,000 for certain accounts custodied with CS&Co. We may negotiate our fee on individual accounts - and for households with multiple accounts - that exceed one million dollars (\$1,000,000) in total assets under our management. All accounts pay less than the maximum fee. The fee schedule attached to the DAMA provides more details on the exact amount you will pay, how we calculate it, and whether you pay it in advance or in arrears.

Unless certain circumstances arise, you will pay our Management Fee, in arrears, as of the last day of each calendar quarter. We compute our Fee as a percentage of the fair market value of those assets in your managed account, as specified in your DAMA, divided by the number of days in that year, and then multiplied by the total number of days in that prior quarter. Any cash flowing in and out of your account during the quarter is prorated for billing purposes. We generally ensure that your managed account has enough cash to cover those fees. With our approval, you may be invoiced for our Fee and pay by check.

If you terminate your advisory relationship with us before the end of a quarterly billing period, we will prorate your Management Fee for only those days that HKFS rendered services to you, including the day we received your termination notice. We will charge you for the number of management days in the period, divided by ninety (90), times your Fee rate, divided by four, and then times your balance at the beginning of the quarter. Depending on the notice you provide, we will either debit the Fee from your account for the remaining days in the period or invoice you directly.

In addition to our Fee, you are also responsible for the other types of fees and expenses associated with the mutual funds, ETFs and other securities we select for your managed account. Fund managers assess their fees and expenses against fund investments. When possible, we prefer mutual funds with low expense ratios that contain no load or load-waived expenses. We also prefer lower expense ETFs that are free of trading costs when prudent. Some mutual funds have early redemption charges and short-term trading fees. We avoid incurring these costs when reasonably possible. If you purchase certain ETFs, mutual funds or individual securities, you may also incur brokerage and other related transaction costs. You may also incur termination fees and wire fees.

Neither HKFS nor any of our supervised persons (which includes all HKFS Advisory Representatives and employees) receive or accept compensation for the sale of securities or other investment products (including asset-based sales charges or service fees from the sale of mutual funds) inside your managed account. Our revenue from advisory relationships comes from our Management Fees and not from transaction-specific commissions, markups, and other compensation from the sale of investment products. Furthermore, HKFS does not charge or receive commissions or markups on bonds and other securities we may buy for your managed account. HKFS strives to buy these assets at the best possible price by comparing prices from multiple sources. When possible, we will aggregate purchases to achieve better pricing. Please see *Item 12: Brokerage Practices* for more detailed information concerning custodial trading practices.



*HKFS Compass.* As described in *Item 4: Advisory Business*, clients do not pay fees to SPT or brokerage commissions or other fees to CS&Co as part of HKFS Compass. Schwab does receive other revenues, including (i) the profit earned by Charles Schwab Bank, a Schwab affiliate, on the allocation to the Schwab Intelligent Portfolios Sweep Program described in the Schwab Intelligent Portfolios Sweep Program Disclosure Statement; (ii) investment advisory and/or administrative service fees (or unitary fees) received by Charles Schwab Investment Management, Inc., a Schwab affiliate, from Schwab ETFs™, Schwab Funds® and Laudus Funds® that we select to buy and hold in the client's brokerage account; (iii) fees received by Schwab from third-party ETFs that participate in the Schwab ETF OneSource™ program and mutual funds in the Schwab Mutual Fund Marketplace® (including certain Schwab Funds and Laudus Funds) in the client's brokerage account for services Schwab provides; and (iv) remuneration Schwab may receive from the market centers where it routes ETF trade orders for execution. Brokerage arrangements are described further in *Item 12: Brokerage Practices*.

*Third Party Money Managers.* There are two different arrangements for custodial fees at Schwab: Asset-Based Pricing ("ABP") and Transaction-Based Pricing ("TBP"). The ABP method assesses fees based on the value of the portfolio, rather than on individual transactions, and TBP charges a fee per each trade placed in the account. More information concerning custodial fees for third party money manager arrangements can be located in the MM's investment management agreement.

### **Retirement Plan Services**

The maximum fee schedule for services provided to Employer-Sponsored Retirement Plans is as follows:

Asset Management	Negotiable up to 1.5% of plan assets.
Custodial and Administrative Fees	Customized and separately disclosed per plan.

Fees for custodial trading services are based on an agreement between HKFS and Fidelity Brokerage Services, LLC. ("FBS") and represent a pass-through of the fees assessed by FBS. Services include registration and custody of all plan securities, access to FBS's mutual fund platform, an automated trading link that integrates with the HKFS recordkeeping system, and other miscellaneous services. These fees are paid from the plan assets or billed to the plan sponsor. Fees are charged pro rata each quarter. We separately disclose to plan sponsors and participants various plan costs and fees via a services agreement - as required by the Department of Labor.

Fees are collected, in arrears, unless otherwise indicated in your RPS agreements. If you terminate your advisory relationship with us before the end of a quarterly billing period, your Management Fee will be prorated for only those days that HKFS rendered services to you, including the day we receive notice. We will charge for the number of management days in the period, divided by ninety (90), times your fee rate, divided by four, times your balance at the beginning of the quarter.

Neither HKFS nor any of our supervised persons receive or accept compensation for the sale of securities or other investment products (including asset-based sales charges or service fees from the sale of mutual funds) inside your managed account. For example, mutual fund companies utilizing FBS's fund platform may provide special payments for services that benefit those companies, commonly referred to as "revenue sharing". The amount paid by a fund company is reflected in that fund's expense ratio, and may include sub-transfer agent fees, 12b-1 fees, and fund administration fees, among others. Through our agreement with FBS, all the revenue sharing paid to FBS is passed through to HKFS. HKFS deposits these payments to a separate ERISA account for each retirement plan. It is HKFS's policy that all such payments be used to the ultimate benefit of the plan participants; specifically, payments are applied to offset quarterly charges for services we provide. See appendix C of your plan's service agreement for more details.

### **Other Fees and Compensation**

*Commissions Earned from the Sale of Securities or Insurance Products.* Advisory Representatives also registered as Avantax RRs may sell securities products through the Avantax BD (and held in a separate brokerage account



with National Financial Services, Inc. and/or directly by fund companies) and/or sell insurance products underwritten by independent insurance carriers. Such transactions will generate commissions (and possible ongoing trails), which are paid by the client and earned by our Avantax RRs. Selling securities or insurance products for a commission presents a potential conflict of interest, giving us and our Advisory Representatives an incentive to recommend products based on the compensation we receive, rather than on your needs. We address any potential conflict by fully disclosing and discussing how these products may help you achieve your objectives, as well as possible alternatives, benefits, and costs. We do not exercise discretion on such transactions. Advisory Representatives that are salaried employees of the firm are required to assign all commissions generated to HKFS. Any commissions earned by non-employee Advisory Representatives relating to such transactions will be disclosed to our clients before and during the transaction using formal disclosure forms. Clients will not be charged an additional asset-based management fee for commissions we receive for the transactions. Concerning Avantax BD accounts, all transactions are reviewed for suitability by a registered supervisory principal of the Avantax BD. Concerning fixed insurance products, HKFS is subject to state regulatory requirements concerning sales practices and suitability.

*Fee-Based Planning.* Fees for financial planning only engagements are negotiable and might depend upon the level and scope of the services required as well as the Advisory Representative providing the services. Fees will typically range from \$1,000-\$5,000 on a fixed basis, or \$150-\$300 on a per hour basis. Clients are typically invoiced at the end of the engagement, although we may request an initial deposit. Clients opting for ongoing planning services, such as annual updates, are typically invoiced after each separate planning session. Clients pay fees directly rather than through a direct debit of accounts. Such clients also have the option to purchase products that we recommend through other brokers or agents not affiliated with HKFS, which may charge the same or different amount for fees than HKFS.



**Item 6: Performance-Based Fees and Side-By-Side Management**

HKFS does not - nor do any of our Advisory Representatives - accept performance-based fees. In addition, HKFS does not engage in side-by-side management.



## **Item 7: Types of Clients**

We provide investment advisory services to individuals, pension & profit-sharing plans (and their participants), trusts, estates, foundations & endowments, charitable organizations, and business entities.

For our discretionary asset management services, we generally do not accept clients with investable assets less than \$50,000 because of practical considerations in managing such smaller accounts. For example, certain mutual funds impose a minimum account balance, which limits our ability to properly allocate or rebalance an account across multiple asset classes.

Clients eligible to enroll in HKFS Compass include individuals, IRAs, and revocable living trusts. Clients that are business entities (such as corporations and partnerships) or government entities, and clients that are subject to ERISA, are not eligible for HKFS Compass. The minimum investment required to open an account in HKFS Compass is \$50,000.

We use CS&Co as the custodian for accounts of \$200,000 or more, with a minimum annual fee of \$3,000.

We will waive single account minimums for households and for other clients with multiple managed accounts of sufficient aggregate size if it makes business sense for us. We also have additional custodians available if they provide a product or specialty not available through CS&Co.



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

### **ANALYSIS AND STRATEGIES**

Investing in securities inherently involves risk of loss, which you should be prepared to bear. To deal with that risk, we employ four fundamental strategies: (1) allocating assets to meet long-term goals, (2) using broad diversification, (3) holding allocations through market cycles while strategically adjusting style weights, and (4) rebalancing portfolios, when necessary, to ensure that they remain within the selected allocation range.

#### **Asset Allocation**

Studies have shown that asset allocation determines most of your return. Historically, stocks have earned a greater return than bonds, albeit with greater risk. Risk in this sense means price volatility. Therefore, the higher your allocation to stocks, the greater you can expect your long-term return to be, and the greater you can expect your risk exposure to be.

HKFS Financial Professionals carefully analyze your needs and apply these findings and results to the management of your portfolio. We document these findings and the allocation decision in your IPS.

#### **Diversification**

Diversification is a major component of Modern Portfolio Theory (“MPT”). MPT is a theory that HKFS considers in our investment management. MPT attempts to maximize portfolio return for a given amount of risk by carefully choosing the proportion of various assets. We believe that it is important to diversify your stock and bond portfolios into different investment styles or segments. For example, a stock portfolio can be diversified into large or small capitalization stocks, growth or value stocks, and domestic or international stocks, while bonds can be diversified into long or short maturities or higher or lower quality bonds. By diversifying into a collection of investment assets that have diverse correlations to each other, we believe we can lower the overall risk of your entire portfolio.

#### **Holding Through Market Cycles**

We do not believe that you benefit over the long term if we move you in and out of markets based on movements in market cycles (referred to as ‘market timing’). We believe attempting to sell out of and buy back into any market is riskier than maintaining an allocation strategy through the cycles. Frequent and excessive trading may increase brokerage and other transaction costs as well as tax liability, while at the same time reducing performance. However, we do believe that value can be added by strategically adjusting the weightings to different asset sectors over various market and economic cycles.

Our Investment Advisory Committee (IAC) considers information gathered independently as a company, obtained from outside research, and that members obtain on their own. The IAC advises the Chief Investment Officer (CIO) on issues relating to adjusting allocations to different asset segments based on the outlook for the economy and markets. The IAC provides guidance in establishing policies and procedures to ensure proper diversification is achieved in your accounts. The IAC also provides account oversight. See *Item 13: Review of Accounts*.

#### **Rebalancing**

Because the value of different asset classes held in your portfolio can rise or fall over time, resulting in you falling outside the asset allocation range defined in you IPS, our financial professionals periodically review client accounts to determine if rebalancing - realigning your account back to your defined allocation range - is advisable.

### **OTHER METHODS OF ANALYSIS**

We use several different investment vehicles in managing your portfolios. We analyze mutual funds and ETFs for their management, performance, and expenses. Manager tenure is important to consider as is fund performance on both a nominal and comparative basis. We compare performance to similar funds, an asset or market sector,



and the markets as a whole. We monitor for changes and trends. We also are careful to keep trading costs and fund expenses reasonable.

When using individual securities, we are careful to include best-bid buying of securities, and to employ special orders when buying or selling securities or ETFs on an exchange. For example, limit orders may help secure a security at a marginally lower cost, or secure a minimum price on sale. We may use research from multiple companies when making our decisions on individual investments and funds, such as Bloomberg, Credit Suisse, Morningstar, CS&Co and Standard & Poor's, among others.

We also consider the economic and market climate when buying or selling investments. We may also consider the length of time securities are held in your taxable account to reduce the impact of transactions on your income tax. To improve tax efficiency of your account, we may time purchases and sales to match gains with losses, avoid buying capital gains, defer gains to another year, and to avoid wash sales.

#### **RISK OF LOSS**

As a firm that manages for the longer term, there is a material risk that we may hold investments in your accounts during a prolonged period of generally suppressed security prices. We seek to mitigate the risks of this strategy by allocating assets among a wide variety of asset classes. By not attempting to time in and out of market cycles, we believe we are reducing the risk of missing a market turn.

There is a material risk that how we allocate assets among various areas and sectors of markets for any period will produce results below that of the securities markets as a whole. Diversification does not eliminate the potential for loss.

We primarily recommend actively-managed mutual funds and passively-managed ETFs. There is a material risk that we may choose funds that fail to perform as well as their peers, or that we allocate too much or too little to certain funds or market sectors. The types of risks among various types of funds differ substantially. We diversify to reduce risk of owning specific companies or styles.



### **Item 9: Disciplinary Information**

Neither HKFS nor any of our related persons have any legal or disciplinary events to disclose that we believe are 'material' to you.

You can always view the CRD registration records for HKFS or any of our Advisory Representatives through the SEC's Investment Adviser Public Disclosure (IAPD) website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or through FINRA's BrokerCheck database online at [www.finra.org/brokercheck](http://www.finra.org/brokercheck) if the Advisory Representative is also registered with ProEquities. Our IARD/CRD number is 106237 and the CRD numbers for Advisory Representatives are listed alongside their biographical information in their respective Brochure Supplement document.



## Item 10: Other Financial Industry Activities and Affiliations

### FINANCIAL INDUSTRY AFFILIATIONS

*Controlling Affiliates: Blucora, Inc. & Avantax WM Holdings, Inc.* HKFS is a wholly owned affiliate of Avantax WM Holdings, Inc. and a wholly owned indirect subsidiary of Blucora, Inc., a publicly traded company (symbol: BCOR).

*Common Control Affiliates: Avantax Wealth Management Entities.* Affiliates with which HKFS is under the common control include Avantax BD, a registered broker-dealer, Avantax IA, a registered investment adviser, and Avantax Insurance Services, LLC. & Avantax Insurance Agency, LLC., licensed insurance agencies.

*Non-Controlling Affiliations: CPA Firms.* HKFS has significant relationships with a number of local and regional CPA firms across the country. HKFS was previously affiliated with one of these CPA firms: Honkamp Krueger and Co., P.C. ("HK"). Some HK partners and employees remain HKFS IARs and receive a share of Fees generated from their CPA clients that have engaged us. HK also continues to provide accounting and bookkeeping services to HKFS.

*Custodians.* We have a material relationship with Schwab as the broker-dealer/custodian for our investment advisory services. We have a similar relationship with Fidelity Investments for our retirement plan services. See *Item 12: Brokerage Practices* for more details concerning our relationship with Schwab.

*Sub-Advisors.* We have sub-management agreements with certain sub-advisors to help us monitor individual stocks and bonds. If you own such securities, you must agree to this monitoring service by signing a limited power of attorney allowing these firms to view your positions. These sub-advisors may also present securities for purchase or sale in your accounts, work for with which the sub-advisor may receive compensation. HKFS does not participate in or benefit from such fees, and conducts due diligence reviews to ensure stock and bond prices remain competitive with those that you could obtain from other sources. We exercise independent judgment that such securities meet your needs.

### FINANCIAL INDUSTRY ACTIVITIES

*Registered Representatives of Avantax BD.* Several of our Advisory Representatives are Avantax RRs. HKFS and Avantax BD are common-control affiliates. Our relationship with Avantax BD is material to our clients. Avantax BD provides limited-scope supervision of our Avantax RRs' advisory activities to the extent that Avantax BD considers such activities to be outside the ordinary business of its broker-dealer. While ProEquities' brokerage operation is not material to the operation of our advisory business, Avantax BD expects our Avantax RRs to sell non-managed-account securities products through Avantax BD to you to generate commissions. Generating and receiving such commissions could create an incentive on the part of the Avantax RRs to sell products not in the best interests of the client. This in turn creates a conflict of interest between the Avantax RRs and our clients. Please see *Item 5: Fees and Compensation*, where we discuss our brokerage fee disclosure policy.

To address this, Avantax RRs must adhere to FINRA rules regarding client product suitability. Further, all HKFS employees that are Avantax RRs are required to assign all commissions generated under their Avantax rep number to HKFS; HKFS employees are paid an annual salary as well as periodic bonuses based on a variety of factors. All Avantax RRs that are CPAs are required by their state accountancy board to provide each client with a document for each brokerage transaction that discloses the commissions and other related fees earned from that transaction. We also address this conflict by adopting, monitoring, and enforcing our Code of Ethics. (We encourage you to review our Code of Ethics).

*Insurance General Agency/Agents.* HKFS also offers insurance products to our advisory clients as a Managing General Agency/Agent for insurance carriers. We are licensed to do insurance business in most states. Some of our Advisory Representatives may also be licensed to sell insurance. We and some of our Advisory Representatives are appointed as brokers with various insurance carriers and may benefit financially, directly or indirectly, from a transaction in insurance. Many of the cases we handle are significant in size and complexity, and contribute to our profits. There is a material conflict with you when we or any of our Advisory Representatives benefit from an



insurance commission. We address this conflict in our Code of Ethics, particularly in the section entitled 'Sales Practices'. Our operating standard requires that we seek the product suitable for you and your financial situation. We conduct comparative quote and cost analysis as a matter of practice when placing a policy for you.

#### CONCLUSION

We have no relationships or arrangements that might be material to our advisory business or material to you in evaluating us with the following types of organizations or persons:

- Any investment company or other pooled investment vehicle - beyond employing such products in a client portfolio.
- Any futures commission merchant, commodity pool operator, or commodity trading advisor.
- Any banking or thrift institution.
- Any lawyer or law firm.
- Any real estate broker or dealer.
- Any sponsor or syndicator of limited partnerships.



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

### CODE OF ETHICS

Pursuant to SEC Rule 204A-1, HKFS has adopted a Code of Ethics (“Code”) promoting the fiduciary duty that both HKFS and our supervised persons owe to you. The Code lays out our standards of business conduct, and establishes policies and procedures to ensure our compliance with federal and state laws as well as to reduce or minimize potential conflicts. Our Code encourages us and our related persons to put your interests first, to maintain the confidentiality of your personal and sensitive information, and to prevent abuses of our position of trust at your expense. We provide our Code and related training to all employees as a part of new hire orientation, and then annually thereafter. Our supervised persons are required to attest that they have read and understand our Code, as well as to retain a copy to reference. A copy of our Code is available to you upon request. It is also posted on our website at [www.hkfs.com](http://www.hkfs.com).

### PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

HKFS generally does not buy or sell any securities for your accounts in which we have a material financial interest. That would be a direct conflict of interest. HKFS generally does not invest your assets in securities designated by the SEC as “reportable securities” (for example, exchange-listed stocks), although you may direct us to buy and sell such securities in your IPS.

Our supervised persons may have an interest in client transactions insofar as they may personally invest in the same securities recommended to you. These transactions involve a conflict of interest as HKFS or our supervised persons may benefit from an increase in price from subsequent purchases by you. To address this conflict, we have policies placing restrictions on some of the personal trading activity of our supervised persons, as well as procedures requiring supervised persons to report their personal holdings annually and their personal securities transactions every quarter, among other requirements. Our Chief Compliance Officer monitors the personal securities activity of our supervised persons, especially those who recommend or place trades for your accounts.



## Item 12: Brokerage Practices

### THE CUSTODIANS AND BROKERS THAT HKFS USES

HKFS 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 primarily use CS&Co. as the broker-dealer and custodian for our investment advisory services, and Fidelity for our retirement plan services. We are independently owned and operated, and are not affiliated with, any qualified custodian. The qualified custodian will hold your assets in a brokerage account, and buy and sell securities when instructed by either us or you.

### HOW HKFS SELECTS BROKERS/CUSTODIANS TO USE

We select broker-dealers to execute client securities transactions by considering a wide range of factors, among others, including the following:

- 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 (e.g., wire transfers, check requests, bill payment, etc.);
- breadth of investment products made available (stocks, bonds, mutual 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 (e.g., commission rates, other fees, etc.) and willingness to negotiate them;
- their reputation, financial strength and stability;
- their prior service to us and our other clients;
- availability of other products and services that benefit us, as discussed below.

### YOUR CUSTODY AND BROKERAGE COSTS

For our clients’ accounts that Schwab maintains, Schwab generally does 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 Schwab account. Certain trades (for example, many mutual funds and ETFs) may not incur Schwab commissions or transaction fees. Schwab is also compensated by earning interest on the uninvested cash in your account in Schwab’s Cash Features Program. In addition to commissions, Schwab charges you 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 Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, we have Schwab execute most trades for your account to minimize your trading costs. We have determined that having Schwab execute most trades is consistent with our duty to seek “best execution” of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see sub-item “HOW HKFS SELECTS BROKERS/CUSTODIANS TO USE”).

Schwab is our preferred broker/custodian because of its competitive commission schedule, effective trade execution platform, and ability to aggregate client trades, which may benefit you. Schwab offers a wide variety of products and services at competitive institutional pricing, the benefits of which we can pass on to you. In that case, we execute transactions through Schwab. Concerning “best execution”, Schwab states on its website:

“Schwab Advisor Services is committed to providing best execution for your trades. Information regarding the routing destination and time of execution of your orders for up to a six-month period is available upon request.

In arranging for the execution of equities and listed options orders, Schwab Advisor Services seeks out industry leading execution services and access to the best performing markets. In this regard,



Schwab Advisor Services has contracted with UBS Securities LLC and its affiliates (“UBS”) for equity and options order handling and execution services, including access to UBS’s state-of-the-art, algorithmic order routing capabilities. UBS manages the execution of most types of orders for which customers have not provided specific instructions (non-directed orders), including through the use of intelligent order routing technology for identifying the best available market. UBS executes Schwab Advisor Services orders on all major market centers, including exchanges, ECNs (electronic trading networks) and dealer markets, and may also execute orders as principal. UBS also provides execution services for most types of directed orders.

UBS routing and execution services are subject to Schwab Advisor Services’ execution quality standards for achieving best execution. In certain circumstances, Schwab Advisor Services itself may route orders directly to a market for execution. Schwab Advisor Services considers a number of factors in evaluating execution quality, including execution price and opportunities for price improvement, market depth and order size, the trading characteristics of the security, speed and accuracy of the execution, the availability of efficient and reliable order handling systems, service levels, and the cost of executing orders at a particular market or firm. Schwab Advisor Services regularly monitors the execution quality provided by UBS and the various markets to which UBS and Schwab Advisor Services may route orders, to ensure orders are routed to markets that have provided high-quality executions over time.”

*HKFS Compass.* Client accounts enrolled in HKFS Compass are maintained at, and receive the brokerage services of, Schwab. While we require our clients use Schwab as their broker to enroll in HKFS Compass, it is the client that still decides whether to open an account with Schwab by entering into a brokerage account agreement directly with Schwab. We do not open the account for the client. If the client does not wish to place his or her assets with Schwab, then we cannot manage the client’s account through HKFS Compass. Schwab may aggregate purchase and sale orders for ETFs across accounts enrolled in HKFS Compass, including both accounts for our clients and accounts for clients of other independent investment advisory firms using the IIP Platform.

#### PRODUCTS AND SERVICES AVAILABLE TO HKFS FROM SCHWAB

Schwab Advisor Services™ (“SAS”) is Schwab’s business serving independent investment advisory firms like HKFS. Through SAS, Schwab provides us and our clients (both those enrolled in HKFS Compass and our clients not enrolled in HKFS Compass) with access to its institutional brokerage—trading, custody, reporting, and related services—many of which are not typically available to Schwab Retail customers. Schwab also makes available various support services. Some of those services help us manage or administer your accounts, while others help us manage and grow our business. Here is a more detailed description of Schwab’s support services:

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

*Services that May Not Directly Benefit You.* Schwab also makes available to HKFS other products and services that benefit us, but may not directly benefit you or your accounts. These products and services assist us in managing and administering your accounts. They include investment research, both Schwab’s own and that of third parties. HKFS may use this research to service all or some substantial number of our clients’ accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- provide access to client account data (such as duplicate trade confirmations and account statements);
- facilitate trade execution 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 HKFS.* Schwab also offers other services 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, and insurance providers.

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

#### EXAMPLES OF SCHWAB PRODUCTS AND SERVICES PROVIDED TO HKFS

- Beginning in 2016 and running through 2018, HKFS received financial support from Schwab to cover any of our technology and marketing invoices in exchange for agreeing to move our client money market balances over to cash sweep accounts of Schwab's banking division. This support helped us to manage and further develop our advisory business, which helps us enhance the services we provide to you.
- Every year, HKFS holds an annual professional training conference for those independent CPAs registered as HKFS Advisory Representatives. Schwab (along with other unaffiliated third parties) sponsor the event by providing HKFS with financial support in the form of cash payments ranging between \$250-\$10,000, logo-embroidered merchandise and/or guest speakers, among others.
- In 2017, HKFS completed an onsite complementary consultation with a Schwab professional to help us strengthen our cybersecurity program.

#### OUR INTEREST IN SCHWAB'S SERVICES

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services. These services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. This creates an incentive to recommend that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see "HOW HKFS SELECTS BROKERS/CUSTODIANS") and not Schwab's services that benefit only us.

#### SOFT DOLLAR ARRANGEMENTS

HKFS does not engage in any soft-dollar arrangements. If our policy changes, then we must disclose this as a material change in the way we do business.

HKFS does receive investment-related information, such as proprietary and third-party research, from Schwab and from the mutual fund companies and money managers that we utilize, such as Nuveen and Goldman Sachs, to name a few. But our receipt of such materials are not related in any way to client securities transactions.

#### CLIENT REFERRAL ARRANGEMENTS

HKFS does not select or recommend broker-dealers/custodians in exchange for client referrals from a broker-dealer or third party.

#### DIRECTED BROKERAGE ARRANGEMENTS

HKFS generally does not permit our clients to direct brokerage.



#### OTHER BROKERAGE & TRADING PRACTICES

*Aggregation.* For our investment advisory services, HKFS will seek to aggregate purchases and sales of securities in affected accounts whenever doing so would result in securing a potential price that benefits all our clients equally. We may provide you an opportunity to opt out of such trades if you (not us) consider it in your best interest. However, transaction costs, especially for mutual funds, are generally the same whether or not we aggregate trades. We aggregate purchases and sales of mutual funds for certain managed accounts when we choose or replace a mutual fund or ETF to represent an asset segment in our model portfolios, change the overall asset allocation, or re-balance your account. All managed accounts affected receive the same price. If an aggregated purchase or sale order for such a security executes in pieces at different prices, we apply the average price to each account. A potential cost to you is that in some instances a non-aggregated order might provide a better price.

*Cross Trades.* Cross trades entail advisers executing internal, non-agency transactions between client accounts in which one client purchases securities or other financial instruments held by another client and the adviser receives no compensation. Cross trades involve a conflict of interest where an adviser represents the interests of both sides in the same transaction because the adviser might treat one side more favorably than the other. For our investment advisory services, HKFS will utilize cross trades for certain individual bonds only where we determine such transactions to be beneficial, preferred, and in the best interest of both clients involved. HKFS has established policies and procedures designed to mitigate these conflicts and to help ensure that such cross trades are in the best interests of, and suitable for, all clients involved. HKFS maintains a log detailing each instance we utilize cross trades.



### **Item 13: Review of Accounts**

HKFS reviews your account(s) periodically, and at least annually, to ensure we are managing your assets according to your current financial needs and according to the directions laid out in your IPS. We review all managed accounts that rely on our model portfolios, re-balancing them as instructed, once, twice, or four times annually. Annually, our investment services team compares all our non-modeled accounts against an IAC-selected list of criteria. Every month, our internal analysts also review a select group of accounts and send a report of the results to the IAC and CIO. HKFS notifies your Advisory Representative(s) of any discrepancies and tracks those until either they're corrected, or we obtain your direction to maintain the discrepancy. Additionally, you can meet with your Advisory Representative as frequently as you might request (or require) to discuss your account(s), your investment strategies or changes in your financial circumstances in general. Your Advisory Representative may discuss your financial goals with you. We may also provide a client review as a way to formally structure your review process.

In addition to periodic reviews, we may review accounts before certain transactions or before the end of the calendar year to help you manage the impact of tax liability. We may also do ad hoc reviews of accounts that own a particular security whenever there is: unusually positive or negative news or price changes in a security; a merger or other corporate event; or a regulatory or civil action, among other reasons.

You receive regular reports in the form of monthly statements from us. Our statements include the purchase date, cost, market price, realized gain or loss, unrealized gain or loss of your securities. We also report the change in value over time, including your additions and withdrawals. We usually include a written newsletter from the CIO with your statement.



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

The only compensation that HKFS receives for the wealth management services we provide is our Management Fee. HKFS does not receive any economic benefit from anyone who provides investment advice or other advisory services to you. As previously described above under *Item 12: Brokerage Practices*, HKFS receives an economic benefit from CS&Co. in the form of the support products and services it makes available to us. These products and services, how they benefit us, and the related conflicts of interest are described above under *Item 12: Brokerage Practices*. However, the availability to us of CS&Co's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

HKFS compensates other professionals, such as CPAs and attorneys, to refer their clients to HKFS for our wealth management services ("Solicitors"). The use of referral compensation may constitute a conflict of interest. For referrals that engage HKFS for advisory services, HKFS will compensate the Solicitors a portion of the ongoing fee we collect from clients in accordance with a written agreement between HKFS and the Solicitor. HKFS will only compensate Solicitors that are licensed as investment advisor representatives, especially in states that require IAR registration and allow that practice. In addition, HKFS follows SEC and state regulator rules concerning solicitor arrangements.



### **Item 15: Custody**

Under government regulations, HKFS is deemed to have constructive custody through authorizations we maintain over certain of the client assets to which we provide investment advisory services. For example, most clients have authorized us to instruct Schwab to debit our Management Fee directly from their accounts. Some clients have also granted us a standing letter of authorization(s) to move their assets from their account to a third party. We have constructive custody of the funds and securities for those retirement plan clients to which we also provide Retirement Plan Services (that is, recordkeeper and plan administrator support services). And we also have constructive custody for several trust accounts over which certain of our Advisory Representatives serve as trustee.

As a result, we have implemented certain controls to provide further protections for you. In accordance with Rule 206(4)-2, unaffiliated qualified custodians, such as Schwab, maintain actual custody of your assets. Your qualified custodian is required to send account statements to you at least quarterly to your postal mailing address (for paper statements) or the electronic mail address (if you opt for electronic delivery).

We urge you to promptly and carefully review the account statements from your qualified custodian, and compare them with the monthly portfolio reports you receive from us. If you find or suspect any discrepancies, please report them to our Chief Compliance Officer, who can be reached toll-free at 800-791-8994 or at [compliance@hkfs.com](mailto:compliance@hkfs.com).



### **Item 16: Investment Discretion**

We accept discretionary authority to manage investment accounts on your behalf. Before we assume this authority, you must execute a DAMA defining our discretionary authority, as well as complete an IPS detailing instructions for how we are to manage your accounts. You may prohibit any asset or market segment, and may limit the kinds of securities we use in managing you toward your objectives. Clients will also execute a trading authorization form with their broker-dealer/custodian, which defines the discretionary authority clients are giving us over their accounts. When you grant HKFS discretion, we buy and sell securities and change market segment weightings within your IPS guidelines.

We may also manage some assets on a non-discretionary basis. However, we currently do not provide any clients with non-discretionary asset management based on a written agreement.



### **Item 17: Voting Client Securities**

In line with the fiduciary duty we owe to you and in accordance with SEC Rule 206(4)-6, HKFS maintains policies and procedures for voting security proxies.

You may grant us authority to vote securities in your accounts or else withhold that right for yourself. You may also elect to receive proxies or other solicitations directly. You may revoke that authority at any time. Depending on circumstances, you may receive your proxies or other solicitations directly from your qualified custodian or a transfer agent.

Our IAC monitors the proxy voting function. Our CIO supervises proxy voting by HKFS. As proxy materials are received, they are collected and reviewed for conflict of interest. When no conflict of interest is apparent, the CIO will direct votes to be cast according to the recommendations of the management of the company who issued the securities. If the CIO determines that an actual or potential conflict of interest exists, our CIO will direct that the vote be cast as “abstain”. Abstentions are logged and reported to the IAC. Proxy statements and copies of voting cards are filed and maintained for at least 5 years. Our CIO and support staff assumes responsibility for filling your requests for information regarding proxy votes and maintaining records of such requests. Beginning third quarter of 2016, HKFS has engaged the proxy tabulation service, Broadridge’s ProxyEdge, to vote and maintain records of all proxies.

For information on how a specific proxy was voted, you may contact our CIO or Chief Executive Officer. To request a copy of our policies and procedures document, contact your Advisory Representative.

You may also direct a request in writing to our corporate office at 3390 Asbury Road, Dubuque, IA 52002, or by phone at 800-791-8994 or 563-582-2855.

In addition, HKFS has also contracted with Broadridge as a service provider to file Class Actions “Proof of Claim” forms. Occasionally, securities held in the accounts of clients will be the subject of class action lawsuits. We have retained the services of Broadridge to provide a comprehensive review of our clients’ possible claims to a settlement throughout the class action lawsuit process. Broadridge actively seeks out any open and eligible class action lawsuits. Additionally, Broadridge files, monitors and expedites the distribution of settlement proceeds in compliance with SEC guidelines on behalf of our clients.

For more information, or if you would like to review any of these documents, you may contact our CIO or Chief Compliance Officer.



**Item 18: Financial Information**

HKFS does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance, and has not been the subject of a bankruptcy petition during the last 10 years.