

# Michael MacDonald Financial Management, Inc. Firm Brochure - Form ADV Part 2A

*This brochure provides information about the qualifications and business practices of Michael MacDonald Financial Management, Inc. If you have any questions about the contents of this brochure, please contact us at (925) 521-0110 or by email at: [mikemac@thefinancialadvisor.org](mailto:mikemac@thefinancialadvisor.org). 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 Michael MacDonald Financial Management, Inc., Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Michael MacDonald Financial Management, Inc.'s CRD number is: 286417.*

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*Michael MacDonald Financial Management, Inc. is a registered investment adviser. Registration does not imply a certain level of skill or training.*

Version Date: 1/25/2017

## **Item 2: Material Changes**

Michael MacDonald Financial Management, Inc., Inc. has not yet filed an annual updating amendment using the Form ADV Part 2A. Therefore there are no material changes to report.

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## Item 4: Advisory Business

### A. Description of the Advisory Firm

Michael MacDonald Financial Management, Inc., Inc. (hereinafter "MMFM") is a Corporation organized in the State of California. The firm was formed in April 2001, and the principal owner is Michael J MacDonald.

### B. Types of Advisory Services

#### *Portfolio Management Services*

MMFM offers ongoing portfolio management services based on the individual goals, objectives, time horizon, and risk tolerance of each client. MMFM creates an Investment Policy Statement for each client, which outlines the client's current situation (income, tax levels, and risk tolerance levels) and then constructs a plan to aid in the selection of a portfolio that matches each client's specific situation. Portfolio management services include, but are not limited to, the following:

- Investment strategy
- Asset allocation
- Risk tolerance
- Personal investment policy
- Asset selection
- Regular portfolio monitoring

MMFM evaluates the current investments of each client with respect to their risk tolerance levels and time horizon. MMFM will request discretionary authority from clients in order to select securities and execute transactions without permission from the client prior to each transaction. Risk tolerance levels are documented in the Investment Policy Statement, which is given to each client.

MMFM seeks to provide that investment decisions are made in accordance with the fiduciary duties owed to its accounts and without consideration of MMFM's economic, investment or other financial interests. To meet its fiduciary obligations, MMFM attempts to avoid, among other things, investment or trading practices that systematically advantage or disadvantage certain client portfolios, and accordingly, MMFM's policy is to seek fair and equitable allocation of investment opportunities/transactions among its clients to avoid favoring one client over another over time. It is MMFM's policy to allocate investment opportunities and transactions it identifies as being appropriate and prudent among its clients on a fair and equitable basis over time.

#### *Financial Planning*

Financial plans and financial planning may include, but are not limited to: investment planning; life insurance; tax concerns; retirement planning; college planning; and debt/credit planning.

In offering financial planning, a conflict exists between the interests of the investment adviser and the interests of the client. The client is under no obligation to act upon the investment adviser's recommendation, and, if the client elects to act on any of the recommendations, the client is under no obligation to affect the transaction through the investment adviser. This statement is required by California Code of Regulations, 10 CCR Section 260.235.2.

### ***Services Limited to Specific Types of Investments***

MMFM generally limits its investment advice to mutual funds, fixed income securities, insurance products including annuities, equities, ETFs (including ETFs in the gold and precious metal sectors) and non-U.S. securities. MMFM may use other securities as well to help diversify a portfolio when applicable.

### **C. Client Tailored Services and Client Imposed Restrictions**

MMFM will tailor a program for each individual client. This will include an interview session to get to know the client's specific needs and requirements as well as a plan that will be executed by MMFM on behalf of the client. MMFM may use model allocations together with a specific set of recommendations for each client based on their personal restrictions, needs, and targets. Clients may impose restrictions in investing in certain securities or types of securities in accordance with their values or beliefs. However, if the restrictions prevent MMFM from properly servicing the client account, or if the restrictions would require MMFM to deviate from its standard suite of services, MMFM reserves the right to end the relationship.

### **D. Wrap Fee Programs**

A wrap fee program is an investment program where the investor pays one stated fee that includes management fees, transaction costs, fund expenses, and other administrative fees. MMFM does not participate in any wrap fee programs.

### **E. Assets Under Management**

MMFM has the following assets under management:

<b>Discretionary Amounts:</b>	<b>Non-discretionary Amounts:</b>	<b>Date Calculated:</b>
\$0	\$0	December 2016

## **Item 5: Fees and Compensation**

## **A. Fee Schedule**

Lower fees for comparable services may be available from other sources.

### *Portfolio Management Fees*

<b>Total Assets Under Management</b>	<b>Annual Fees</b>
All Assets	1.00%

The advisory fee is calculated using the value of the assets on the last business day of the prior billing period.

These fees are generally negotiable and the final fee schedule is attached as Exhibit II of the Investment Advisory Contract. Clients may terminate the agreement without penalty for a full refund of MMFM's fees within five business days of signing the Investment Advisory Contract. Thereafter, clients may terminate the Investment Advisory Contract immediately upon written notice.

### *Financial Planning Fees*

#### **Fixed Fees**

The negotiated fixed rate for creating client financial plans is between \$250 and \$1,500.

#### **Hourly Fees**

The negotiated hourly fee for these services is between \$100 and \$300.

Clients may terminate the agreement without penalty, for full refund of MMFM's fees, within five business days of signing the Financial Planning Agreement. Thereafter, clients may terminate the Financial Planning Agreement generally upon written notice.

## **B. Payment of Fees**

### *Payment of Portfolio Management Fees*

Asset-based portfolio management fees are withdrawn directly from the client's accounts with client's written authorization on a monthly basis. Fees are paid in advance.

### *Payment of Financial Planning Fees*

Financial planning fees are paid via check.

Fixed financial planning fees are paid in arrears upon completion.

Hourly financial planning fees are paid in arrears upon completion.

### **C. Client Responsibility For Third Party Fees**

Clients are responsible for the payment of all third party fees (i.e. custodian fees, brokerage fees, mutual fund fees, transaction fees, etc.). Those fees are separate and distinct from the fees and expenses charged by MMFM. Please see Item 12 of this brochure regarding broker-dealer/custodian.

### **D. Prepayment of Fees**

MMFM collects certain fees in advance and certain fees in arrears, as indicated above. Refunds for fees paid in advance will be returned within fourteen days to the client via check, or return deposit back into the client's account.

For all asset-based fees paid in advance, the fee refunded will be equal to the balance of the fees collected in advance minus the daily rate\* times the number of days elapsed in the billing period up to and including the day of termination. (\*The daily rate is calculated by dividing the annual asset-based fee rate by 365.)

### **E. Outside Compensation For the Sale of Securities to Clients**

Neither MMFM nor its supervised persons accept any compensation for the sale of investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

MMFM does not accept performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a client.

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

MMFM generally provides advisory services to the following types of clients:

- ❖ Individuals
- ❖ High-Net-Worth Individuals

There is an account minimum of \$10,000, which may be waived by MMFM in its discretion.



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

### A. Methods of Analysis and Investment Strategies

#### *Methods of Analysis*

MMFM's methods of analysis include Fundamental analysis, Modern portfolio theory, Quantitative analysis and Technical analysis.

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

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

**Quantitative analysis** deals with measurable factors as distinguished from qualitative considerations such as the character of management or the state of employee morale, such as the value of assets, the cost of capital, historical projections of sales, and so on.

**Technical analysis** involves the analysis of past market data; primarily price and volume.

#### *Investment Strategies*

MMFM uses long term trading.

**Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

### B. Material Risks Involved

#### *Methods of Analysis*

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

**Modern portfolio theory** assumes that investors are risk averse, meaning that given two portfolios that offer the same expected return, investors will prefer the less risky one. Thus, an investor will take on increased risk only if compensated by higher expected returns. Conversely, an investor who wants higher expected returns must accept more risk. The exact trade-off will be the same for all investors, but different investors will evaluate the trade-off differently based on individual risk aversion characteristics. The

implication is that a rational investor will not invest in a portfolio if a second portfolio exists with a more favorable risk-expected return profile – i.e., if for that level of risk an alternative portfolio exists which has better expected returns.

**Quantitative analysis** Investment strategies using quantitative models may perform differently than expected as a result of, among other things, the factors used in the models, the weight placed on each factor, changes from the factors' historical trends, and technical issues in the construction and implementation of the models.

**Technical analysis** attempts to predict a future stock price or direction based on market trends. The assumption is that the market follows discernible patterns and if these patterns can be identified then a prediction can be made. The risk is that markets do not always follow patterns and relying solely on this method may not take into account new patterns that emerge over time.

### *Investment Strategies*

**Long term trading** is designed to capture market rates of both return and risk. Due to its nature, the long-term investment strategy can expose clients to various types of risk that will typically surface at various intervals during the time the client owns the investments. These risks include but are not limited to inflation (purchasing power) risk, interest rate risk, economic risk, market risk, and political/regulatory risk.

**Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

## **C. Risks of Specific Securities Utilized**

Clients should be aware that there is a material risk of loss using any investment strategy. The investment types listed below are not guaranteed or insured by the FDIC or any other government agency.

**Mutual Funds:** Investing in mutual funds carries the risk of capital loss and thus you may lose money investing in mutual funds. All mutual funds have costs that lower investment returns. The funds can be of bond “fixed income” nature (lower risk) or stock “equity” nature.

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

**Fixed income** investments generally pay a return on a fixed schedule, though the amount of the payments can vary. This type of investment can include corporate and government debt securities, leveraged loans, high yield, and investment grade debt and structured products, such as mortgage and other asset-backed securities, although individual bonds

may be the best known type of fixed income security. In general, the fixed income market is volatile and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. The risk of default on treasury inflation protected/inflation linked bonds is dependent upon the U.S. Treasury defaulting (extremely unlikely); however, they carry a potential risk of losing share price value, albeit rather minimal. Risks of investing in foreign fixed income securities also include the general risk of non-U.S. investing described below.

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

**Annuities** are a retirement product for those who may have the ability to pay a premium now and want to guarantee they receive certain monthly payments or a return on investment later in the future. Annuities are contracts issued by a life insurance company designed to meet requirement or other long-term goals. An annuity is not a life insurance policy. Variable annuities are designed to be long-term investments, to meet retirement and other long-range goals. Variable annuities are not suitable for meeting short-term goals because substantial taxes and insurance company charges may apply if you withdraw your money early. Variable annuities also involve investment risks, just as mutual funds do.

**Non-U.S.** securities present certain risks such as currency fluctuation, political and economic change, social unrest, changes in government regulation, differences in accounting and the lesser degree of accurate public information available.

**Past performance is not indicative of future results. Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

## **Item 9: Disciplinary Information**

### **A. Criminal or Civil Actions**

There are no criminal or civil actions to report.

## **B. Administrative Proceedings**

There are no administrative proceedings to report.

## **C. Self-regulatory Organization (SRO) Proceedings**

There are no self-regulatory organization proceedings to report.

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

## **A. Registration as a Broker/Dealer or Broker/Dealer Representative**

Neither MMFM nor its representatives are registered as, or have pending applications to become, a broker/dealer or a representative of a broker/dealer.

## **B. Registration as a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor**

Neither MMFM nor its representatives are registered as or have pending applications to become either a Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Advisor or an associated person of the foregoing entities.

## **C. Registration Relationships Material to this Advisory Business and Possible Conflicts of Interests**

Michael Jon MacDonald is a licensed insurance agent and owner of Michael J. MacDonald Insurance Services, and from time to time, will offer clients advice or products from those activities. Clients should be aware that these services pay a commission or other compensation and involve a conflict of interest, as commissionable products conflict with the fiduciary duties of a registered investment adviser. MMFM always acts in the best interest of the client; including the sale of commissionable products to advisory clients. Clients are in no way required to utilize the services of any representative of MMFM in connection with such individual's activities outside of MMFM.

Michael Jon MacDonald is trustee of a self-directed employee/company's profit sharing plan. The trust is not a client of Michael MacDonald Financial Management, Inc.

All material conflicts of interest under Section 260.238 (k) of the California Corporations Code are disclosed regarding the investment adviser, its representatives or any of its employees, which could be reasonably expected to impair the rendering of unbiased and objective advice.

## **D. Selection of Other Advisers or Managers and How This Adviser is Compensated for Those Selections**

MMFM does not utilize nor select third-party investment advisers. All assets are managed by MMFM management.

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

### **A. Code of Ethics**

MMFM has a written Code of Ethics that covers the following areas: Prohibited Purchases and Sales, Insider Trading, Personal Securities Transactions, Exempted Transactions, Prohibited Activities, Conflicts of Interest, Gifts and Entertainment, Confidentiality, Service on a Board of Directors, Compliance Procedures, Compliance with Laws and Regulations, Procedures and Reporting, Certification of Compliance, Reporting Violations, Compliance Officer Duties, Training and Education, Recordkeeping, Annual Review, and Sanctions. MMFM's Code of Ethics is available free upon request to any client or prospective client.

### **B. Recommendations Involving Material Financial Interests**

MMFM does not recommend that clients buy or sell any security in which a related person to MMFM or MMFM has a material financial interest.

### **C. Investing Personal Money in the Same Securities as Clients**

From time to time, representatives of MMFM may buy or sell securities for themselves that they also recommend to clients. This may provide an opportunity for representatives of MMFM to buy or sell the same securities before or after recommending the same securities to clients resulting in representatives profiting off the recommendations they provide to clients. Such transactions may create a conflict of interest. MMFM will always document any transactions that could be construed as conflicts of interest and will never engage in trading that operates to the client's disadvantage when similar securities are being bought or sold.

### **D. Trading Securities At/Around the Same Time as Clients' Securities**

From time to time, representatives of MMFM may buy or sell securities for themselves at or around the same time as clients. This may provide an opportunity for representatives of MMFM to buy or sell securities before or after recommending securities to clients resulting in representatives profiting off the recommendations they provide to clients. Such transactions may create a conflict of interest; however, MMFM will never engage in

trading that operates to the client's disadvantage if representatives of MMFM buy or sell securities at or around the same time as clients.

## **Item 12: Brokerage Practices**

### **A. Factors Used to Select Custodians and/or Broker/Dealers**

Custodians/broker-dealers will be recommended based on MMFM's duty to seek "best execution," which is the obligation to seek execution of securities transactions for a client on the most favorable terms for the client under the circumstances. Clients will not necessarily pay the lowest commission or commission equivalent, and MMFM may also consider the market expertise and research access provided by the broker-dealer/custodian, including but not limited to access to written research, oral communication with analysts, admittance to research conferences and other resources provided by the brokers that may aid in MMFM's research efforts. MMFM will never charge a premium or commission on transactions, beyond the actual cost imposed by the broker-dealer/custodian.

MMFM will require clients to use Trust Company of America.

#### ***1. Research and Other Soft-Dollar Benefits***

While MMFM has no formal soft dollars program in which soft dollars are used to pay for third party services, MMFM may receive research, products, or other services from custodians and broker-dealers in connection with client securities transactions ("soft dollar benefits"). MMFM may enter into soft-dollar arrangements consistent with (and not outside of) the safe harbor contained in Section 28(e) of the Securities Exchange Act of 1934, as amended. There can be no assurance that any particular client will benefit from soft dollar research, whether or not the client's transactions paid for it, and MMFM does not seek to allocate benefits to client accounts proportionate to any soft dollar credits generated by the accounts. MMFM benefits by not having to produce or pay for the research, products or services, and MMFM will have an incentive to recommend a broker-dealer based on receiving research or services. Clients should be aware that MMFM's acceptance of soft dollar benefits may result in higher commissions charged to the client.

#### ***2. Brokerage for Client Referrals***

MMFM receives no referrals from a broker-dealer or third party in exchange for using that broker-dealer or third party.

#### ***3. Clients Directing Which Broker/Dealer/Custodian to Use***

MMFM will require clients to use a specific broker-dealer to execute transactions. Not all advisers require clients to use a particular broker-dealer. By directing brokerage, MMFM may be unable to achieve most favorable execution of client transactions which could cost clients' money in trade execution. Not all advisers require or allow their clients to direct brokerage.

### **B. Aggregating (Block) Trading for Multiple Client Accounts**

If MMFM buys or sells the same securities on behalf of more than one client, then it may (but would be under no obligation to) aggregate or bunch such securities in a single transaction for multiple clients in order to seek more favorable prices, lower brokerage commissions, or more efficient execution. In such case, MMFM would place an aggregate order with the broker on behalf of all such clients in order to ensure fairness for all clients; provided, however, that trades would be reviewed periodically to ensure that accounts are not systematically disadvantaged by this policy. MMFM would determine the appropriate number of shares and select the appropriate brokers consistent with its duty to seek best execution, except for those accounts with specific brokerage direction (if any).

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

### **A. Frequency and Nature of Periodic Reviews and Who Makes Those Reviews**

All client accounts for MMFM's advisory services provided on an ongoing basis are reviewed at least Quarterly by Michael J MacDonald, President, with regard to clients' respective investment policies and risk tolerance levels. All accounts at MMFM are assigned to this reviewer.

All financial planning accounts are reviewed upon financial plan creation and plan delivery by Michael J MacDonald, President. Financial planning clients are provided a one-time financial plan concerning their financial situation. After the presentation of the plan, there are no further reports. Clients may request additional plans or reports for a fee.

### **B. Factors That Will Trigger a Non-Periodic Review of Client Accounts**

Reviews may be triggered by material market, economic or political events, or by changes in client's financial situations (such as retirement, termination of employment, physical move, or inheritance).

With respect to financial plans, MMFM's services will generally conclude upon delivery of the financial plan.



### **C. Content and Frequency of Regular Reports Provided to Clients**

Each client of MMFM's advisory services provided on an ongoing basis will receive a quarterly report detailing the client's account, including assets held, asset value, and calculation of fees. This written report will come from the custodian.

Each financial planning client will receive the financial plan upon completion.

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

### **A. Economic Benefits Provided by Third Parties for Advice Rendered to Clients (Includes Sales Awards or Other Prizes)**

MMFM does not receive any economic benefit, directly or indirectly from any third party for advice rendered to MMFM's clients.

### **B. Compensation to Non – Advisory Personnel for Client Referrals**

MMFM does not directly or indirectly compensate any person who is not advisory personnel for client referrals.

## **Item 15: Custody**

When advisory fees are deducted directly from client accounts at client's custodian, MMFM will be deemed to have limited custody of client's assets. Because client fees will be withdrawn directly from client accounts, in states that require it, MMFM will:

- (A) Possess written authorization from the client to deduct advisory fees from an account held by a qualified custodian.
- (B) Send the qualified custodian written notice of the amount of the fee to be deducted from the client's account and verify that the qualified custodian sends invoices to the client.
- (C) Send the client a written invoice itemizing the fee upon or prior to fee deduction, including the formula used to calculate the fee, the time period covered by the fee and the amount of assets under management on which the fee was based.

Clients will receive all account statements and billing invoices that are required in each jurisdiction, and they should carefully review those statements for accuracy. Clients are urged to compare the account statements they received from custodian with those they received from MMFM.



## **Item 16: Investment Discretion**

MMFM provides discretionary and non-discretionary investment advisory services to clients. The advisory contract established with each client sets forth the discretionary authority for trading. Where investment discretion has been granted, MMFM generally manages the client's account and makes investment decisions without consultation with the client as to when the securities are to be bought or sold for the account, the total amount of the securities to be bought/sold, what securities to buy or sell, or the price per share. In some instances, MMFM's discretionary authority in making these determinations may be limited by conditions imposed by a client (in investment guidelines or objectives, or client instructions otherwise provided to MMFM).

Clients with discretionary accounts will execute a limited power of attorney to evidence discretionary authority.

MMFM will also have discretionary authority to determine the broker dealer to be used for a purchase or sale of securities for a client's account.

## **Item 17: Voting Client Securities (Proxy Voting)**

MMFM will not ask for, nor accept voting authority for client securities. Clients will receive proxies directly from the issuer of the security or the custodian. Clients should direct all proxy questions to the issuer of the security.

## **Item 18: Financial Information**

### **A. Balance Sheet**

MMFM neither requires nor solicits prepayment of more than \$500 in fees per client, six months or more in advance, and therefore is not required to include a balance sheet with this brochure.

### **B. Financial Conditions Reasonably Likely to Impair Ability to Meet Contractual Commitments to Clients**

Neither MMFM nor its management has any financial condition that is likely to reasonably impair MMFM's ability to meet contractual commitments to clients.

### **C. Bankruptcy Petitions in Previous Ten Years**

MMFM has not been the subject of a bankruptcy petition in the last ten years.

## **Item 19: Requirements For State Registered Advisers**

### **A. Principal Executive Officers and Management Persons; Their Formal Education and Business Background**

MMFM currently has only one management person: Michael Jon MacDonald. Education and business background can be found on the individual's Form ADV Part 2B brochure supplement.

### **B. Other Businesses in Which This Advisory Firm or its Personnel are Engaged and Time Spent on Those (If Any)**

Other business activities for each relevant individual can be found on the Form ADV Part 2B brochure supplement for each such individual.

### **C. Calculation of Performance-Based Fees and Degree of Risk to Clients**

MMFM does not accept performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a client.

### **D. Material Disciplinary Disclosures for Management Persons of this Firm**

There are no civil, self-regulatory organization, or arbitration proceedings to report under this section.

### **E. Material Relationships That Management Persons Have With Issuers of Securities (If Any)**

Neither MMFM, nor its management persons, has any relationship or arrangement with issuers of securities. See Item 10.C and 11.B.