

# The Arkansas Financial Group, Inc.

SEC File Number: 801-23922

## **ADV Part 2A, Firm Brochure**

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**This Brochure provides information about the qualifications and business practices of The Arkansas Financial Group, Inc. If you have any questions about the contents of this Brochure, please contact Mary E. McCraw at (501) 376-9051. 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 The Arkansas Financial Group, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**The Arkansas Financial Group, Inc. is an SEC registered investment adviser. Registration does not imply any level of skill or training.**

**Item 2. Material Changes**

There have been no material changes made to The Arkansas Financial Group, Inc. (“AFG”) Brochure since its last annual amendment filing made on March 23, 2023.

**ANY QUESTIONS: AFG’s Chief Compliance Officer, Mary E. McCraw, remains available to address any questions regarding this ADV Part 2A, Firm Brochure.**

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#### **Item 4. Advisory Business**

- A. AFG is a corporation formed in the state of Arkansas in 1982 and became an SEC registered investment adviser on April 17, 1985. Frederick E. Adkins III, Kristina K. Bolhouse and John R. Broadwater are the principal owners of AFG.

This Disclosure Brochure describes the business of AFG. Certain sections will also describe the activities of its “Supervised Persons”. Supervised Persons are any of AFG’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), employees, or any other person who provides investment advice on AFG’s behalf and is subject to AFG’s supervision or control.

- B. AFG offers wealth management services to its clients on a fee only basis, which generally include a broad range of financial planning services as well as the discretionary management of investment portfolios. In the event that the client requires extraordinary planning and/or consultation services (to be determined in the sole discretion of AFG), AFG may determine to charge for such additional services, the dollar amount of which shall be set forth in a separate written notice to the client.

To commence the investment advisory process, AFG will ascertain each client’s investment objective(s) and then allocate the client’s assets consistent with the client’s designated investment objective(s). Once allocated, AFG provides ongoing supervision of the account(s). Before engaging AFG to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with AFG setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the fee that is due from the client (collectively the “Agreement”).

### **WEALTH MANAGEMENT SERVICES**

#### Core Financial Planning Services

Depending upon the needs and direction of the client, the financial planning component of the wealth management offering can generally include the following services:

- Preparation of a wealth management foundational report;
- Development of an individualized investment policy statement (“IPS”);
- Review and monitoring of wealth management plans;
- Consultation, analysis, advice and assistance related to financial issues or decisions that may arise in the future; and
- Administration of investment accounts.

#### Investment Management Services

Clients engage AFG to manage their investment assets on a discretionary basis.

AFG primarily invests clients’ assets among mutual funds, exchange-traded funds (“ETFs”), and individual debt securities. Individual equity securities, options, and the securities components of variable annuities and variable life insurance contracts are held only at the client’s request or pending liquidation. All investments are made in accordance with the investment objectives of the client.

AFG also may render discretionary investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, or other products that may not be held by the client's primary custodian. In so doing, AFG either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

## MISCELLANEOUS

**Limitations of Planning and Non-Investment Consulting/Implementation Services:** To the extent requested by a client, AFG will provide financial planning and related consulting services regarding non-investment related matters, such as estate planning, tax planning and insurance review and / or planning, for a separate fee (*see* Item 5 below) per the terms and conditions of a written financial planning agreement between AFG and the client. Clients are generally required to enter into a *Financial Planning and Consulting Agreement* with AFG setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the portion of the fee that is due from the client prior to AFG commencing services.

AFG does not serve as a law firm, accounting firm, or insurance agency, and no portion of AFG's services should be construed as legal, accounting, or insurance implementation services. Accordingly, AFG does not prepare estate planning or any other type of legal documents, tax returns or sell insurance products. Neither AFG, nor any of its representatives will assist clients with implementing aspects of a financial plan, unless they have agreed to do so in writing. To the extent requested by a client, AFG may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance agents, etc.). Clients are ultimately responsible for determining whether to hire an unaffiliated recommended professional (e.g., attorneys, accountants, insurance agents), even if they hire an unaffiliated recommended professional at AFG's recommendation and clients are reminded that they are under no obligation to engage the services of any recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation made by AFG or its representatives. If the client engages any unaffiliated recommended professional, and a dispute arises thereafter, the client agrees to seek recourse exclusively from the engaged professional. At all times, the engaged licensed professional(s) (i.e. attorney, accountant, insurance agent, etc.), and not AFG, shall be responsible for the quality and competency of the services provided.

The fee for financial planning services is separate from, and in addition to, AFG's investment management fee. Both AFG's financial planning and investment management fees are discussed at Item 5 below. Please Note: AFG believes that it is important for the client to address financial planning issues on an ongoing basis. AFG's advisory/financial planning fee, as set forth at Item 5 below, will remain the same regardless of whether or not the client determines to address financial planning issues with AFG.

**Use of Mutual Funds and ETFs:** AFG utilizes mutual funds and exchange traded funds for its client portfolios. While AFG may recommend or invest in mutual funds or exchange traded funds ("ETFs") that are not available directly to the public, AFG may also recommend or invest in publicly-available mutual funds and ETFs that the client could obtain without engaging AFG as

an investment adviser. However, if a client or prospective client determines to invest in these securities without engaging AFG as an investment adviser, the client or prospective client would not receive the benefit of AFG's initial and ongoing investment advisory services. In addition to AFG's investment management fee described at Item 5 below, and transaction and/or custodial fees discussed below, clients will also incur, relative to all mutual fund and ETF purchases, charges imposed at the fund level (e.g. management fees and other fund expenses).

**ERISA PLAN and 401(k) INDIVIDUAL ENGAGEMENTS:**

- **Trustee Directed Plans.** AFG may be engaged to provide discretionary investment advisory services to ERISA retirement plans, whereby the Firm shall manage Plan assets consistent with the investment objective designated by the Plan trustees. In such engagements, AFG will serve as an investment fiduciary as that term is defined under The Employee Retirement Income Security Act of 1974 ("ERISA"). AFG will generally provide services on an "assets under management" fee basis per the terms and conditions of an *Investment Advisory Agreement* between the Plan and the Firm.
- **Client Retirement Plan Assets.** If requested to do so, AFG shall provide investment advisory services relative to 401(k) plan assets maintained by the client in conjunction with the retirement plan established by the client's employer. In such event, AFG shall allocate (or recommend that the client allocate) the retirement account assets among the investment options available on the 401(k) platform. AFG's ability shall be limited to the allocation of the assets among the investment alternatives available through the plan. AFG will not receive any communications from the plan sponsor or custodian, and it shall remain the client's exclusive obligation to notify AFG of any changes in investment alternatives, restrictions, etc. pertaining to the retirement account. Unless expressly indicated by AFG to the contrary, in writing, the client's 401(k) plan assets shall be included as assets under management for purposes of AFG calculating its advisory fee.

**Retirement Rollovers-Conflict of Interest:** A client or prospective client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): (i) leave the money in the former employer's plan, if permitted, (ii) roll over the assets to the new employer's plan, if one is available and rollovers are permitted, (iii) roll over to an Individual Retirement Account ("IRA"), or (iv) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences). If AFG recommends that a client roll over their retirement plan assets into an account to be managed by AFG, such a recommendation creates a conflict of interest if AFG will earn new (or increase its current) compensation as a result of the rollover. Whether AFG provides a recommendation as to whether a client should engage in a rollover or not, AFG is acting as a fiduciary within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. **No client is under any obligation to roll over retirement plan assets to an account managed by AFG.** AFG's Chief Compliance Officer, Mary E. McCraw, remains available to address any questions that a client or prospective client may have regarding the potential for conflict of interest presented by such rollover recommendation.

**Custodian Charges-Additional Fees:** As discussed below at Item 12 below, when requested to

recommend a broker-dealer/custodian for client accounts, AFG generally recommends that Fidelity Brokerage Service, LLC and National Financial Services, LLC (collectively “*Fidelity*”) serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as *Fidelity* charge brokerage commissions, transaction, and/or other type fees for effecting certain types of securities transactions (i.e., including transaction fees for certain mutual funds, and mark-ups and mark-downs charged for fixed income transactions, etc.). The types of securities for which transaction fees, commissions, and/or other type fees (as well as the amount of those fees) shall differ depending upon the broker-dealer/custodian (while certain custodians, including *Fidelity* generally do not currently charge fees on individual equity transactions (including ETFs), others do. **Please Note:** there can be no assurance that *Fidelity* will not change their transaction fee pricing in the future. **Please Also Note:** When beneficial to the client, individual fixed-income and/or equity transactions may be effected through broker-dealers with whom AFG and/or the client have entered into arrangements for prime brokerage clearing services, including effecting certain client transactions through other SEC registered and FINRA member broker-dealers (in which event, the client generally will incur both the transaction fee charged by the executing broker-dealer and a “trade-away” fee charged by *Fidelity*). These fees/charges are in addition to AFG’s investment advisory fee at Item 5 below. AFG does not receive any portion of these fees/charges. **ANY QUESTIONS: AFG’s Chief Compliance Officer, Mary E. McCraw, remains available to address any questions that a client or prospective client may have regarding the above.**

**Portfolio Activity:** AFG has a fiduciary duty to provide services consistent with the client’s best interest. As part of its investment advisory services, AFG will review client portfolios on an ongoing basis to determine if any changes are necessary based upon various factors, including, but not limited to, investment performance, fund manager tenure, style drift, account additions/withdrawals, and/or a change in the client’s investment objective. Based upon these factors, there may be extended periods of time when AFG determines that changes to a client’s portfolio are neither necessary nor prudent. AFG’s investment advisory fee, as described at Item 5 below, remains payable during periods of account inactivity. Of course, as indicated below, there can be no assurance that investment decisions made by AFG will be profitable or equal any specific performance level(s).

**ByAllAccounts and eMoney Advisor Platform.** Via its PlanFirst tool, and/or the online platform hosted by “eMoney Advisor” (“eMoney”), AFG may also provide access to account aggregation services, which can incorporate all of the client’s investment assets, including those investment assets that are not part of the assets that we manage (the “Excluded Assets”). AFG does not provide investment management, monitoring, or implementation services for the Excluded Assets. Unless otherwise specifically agreed to, in writing, AFG’s service relative to the Excluded Assets is limited to reporting only. Therefore, AFG shall not be responsible for the investment performance of the Excluded Assets. Rather, the client and/or their advisor(s) that maintain management authority for the Excluded Assets, and not AFG, shall be exclusively responsible for such investment performance. Without limiting the above, AFG shall not be responsible for any implementation error (timing, trading, etc.) relative to the Excluded Assets. The client may choose to engage AFG to manage some or all of the Excluded Assets pursuant to the terms and conditions of an Investment Advisory Agreement between AFG and the client.

**Cash Sweep Accounts.** Account custodians generally require that cash proceeds from account transactions or cash deposits be swept into and/or initially maintained in the custodian’s sweep

account. The yield on the sweep account is generally lower than those available in money market accounts. To help mitigate this issue, AFG shall generally purchase a higher yielding money market fund available on the custodian's platform with cash proceeds or deposits, unless AFG reasonably anticipates that it will utilize the cash proceeds during the subsequent 30-day period to purchase additional investments for the client's account. Exceptions and/or modifications can and will occur with respect to all or a portion of the cash balances for various reasons, including, but not limited to, the amount of dispersion between the sweep account and a money market fund, the size of the cash balance, an indication from the client of an imminent need for such cash, or the client has a demonstrated history of writing checks from the account.

Please Note: The above does not apply to the cash component maintained within AFG's actively managed investment strategy (the cash balances for which shall generally remain in the custodian designated cash sweep account), an indication from the client of a need for access to such cash, assets allocated to an unaffiliated investment manager, and cash balances maintained for fee billing purposes. Please Also Note: The client shall remain exclusively responsible for yield dispersion/cash balance decisions and corresponding transactions for cash balances maintained in any of AFG's unmanaged accounts.

**Cybersecurity Risk.** The information technology systems and networks that AFG and its third-party service providers use to provide services to AFG's clients employ various controls, which are designed to prevent cybersecurity incidents stemming from intentional or unintentional actions that could cause significant interruptions in AFG's operations and result in the unauthorized acquisition or use of clients' confidential or non-public personal information. Clients and AFG are nonetheless subject to the risk of cybersecurity incidents that could ultimately cause them to incur losses, including for example: financial losses, cost and reputational damage to respond to regulatory obligations, other costs associated with corrective measures, and loss from damage or interruption to systems. Although AFG has established its processes to reduce the risk of cybersecurity incidents, there is no guarantee that these efforts will always be successful, especially considering that AFG does not directly control the cybersecurity measures and policies employed by third-party service providers. Clients could incur similar adverse consequences resulting from cybersecurity incidents that more directly affect issuers of securities in which those clients invest, broker-dealers, qualified custodians, governmental and other regulatory authorities, exchange and other financial market operators, or other financial institutions.

**Cross Transactions.** In limited circumstances, when determined to be in the best interest of its clients, AFG may engage in a cross-transaction pursuant to which AFG may effect transactions between two of its managed client accounts (i.e., arranging for the clients' securities trades by "crossing" these trades when AFG believes that such transactions [generally, thinly traded bonds] are beneficial to its clients). This may present a conflict of interest. For all such transactions, neither AFG nor any affiliate will be acting as a broker. Additionally, AFG will not receive any commission or transaction-based compensation although AFG has an interest in the price at which the cross trades are conducted since AFG's asset-based fees will be negatively impacted by lower bond values. These transactions will be effected through Fidelity, Fidelity will determine the price of the cross transactions and Fidelity will charge the client a transaction fee for the cross transactions. The client may revoke AFG's cross-transaction authority at any time upon written

notice to AFG. **AFG's Chief Compliance Officer, Mary E. McCraw, remains available to address any questions that a client or prospective client may have regarding the above.**

**Cash Positions.** AFG continues to treat cash as an asset class. As such, unless determined to the contrary by AFG, all cash positions (money markets, etc.) shall continue to be included as part of assets under management for purposes of calculating AFG's advisory fee. At any specific point in time, depending upon perceived or anticipated market conditions/events (there being **no guarantee** that such anticipated market conditions/events will occur), AFG may maintain cash positions for defensive purposes. In addition, while assets are maintained in cash, such amounts could miss market advances. Depending upon current yields, at any point in time, AFG's advisory fee could exceed the interest paid by the client's money market fund. **AFG's Chief Compliance Officer, Mary E. McCraw, remains available to address any questions that a client or prospective may have regarding the above fee billing practice.**

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

**Disclosure Brochure.** A copy of AFG's written Privacy Notice, written Disclosure Brochure as set forth in this Part 2A and 2B of Form ADV and Form CRS (Client Relationship Summary) shall be provided to each client prior to, or contemporaneously with, the execution of a wealth management agreement.

- C. AFG tailors its advisory services to the individual needs of clients. AFG consults with clients initially and on an ongoing basis to develop and maintain an Investment Policy Statement based upon the client's investment objective, goals, risk tolerance, and time horizon.
- D. AFG does not participate in a wrap program.
- E. AFG managed \$755,112,171 in assets on a discretionary basis as of December 31, 2023.

## **Item 5. Fees and Compensation**

- A. AFG offers its wealth management services on a fee basis, which may include hourly and/or fixed fees, as well as fees based upon assets under management.

### **WEALTH MANAGEMENT FEE**

AFG provides clients with wealth management services for a wealth management fee, which is comprised of the core financial planning fee (the "Core Fee") and the investment management fee. All fees are fully earned in the quarter in which they are paid. The fee for investment management is separate from, and in addition to AFG's financial planning fee.

#### **Core Financial Planning Fee**

AFG charges the Core Fee to provide clients with the core financial planning services. The Core Fee is an annual fixed fee that is calculated based on AFG's anticipated and/or actual number of



billable hours spent providing clients with the core financial planning services. The Core Fee is separate from, and in addition to, AFG's investment management fee. In calculating the Core Fee, AFG takes into consideration the level and scope of the required services and the professional rendering such services. Thus, the Core Fee may be waived or, may be more than the Core Fee charged to another client. The hourly rates of AFG's professionals range from \$50 to \$350. AFG generally imposes a minimum annual Core Fee of \$600 or \$150 per quarter. AFG requires one-half of the estimated Core Fee upon execution of the Agreement. The remaining balance is prorated and charged quarterly in advance. AFG's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

### **Investment Management Fee**

AFG provides investment management services for an annual fee based on the amount of assets under the firm's management. The fee varies between 25 and 90 basis points (0.25% — 0.90%), depending on the size of a client's portfolio in accordance with the fee schedule attached to the Agreement. AFG's current standard fee schedule is as follows:

- ◆ 0.900 of 1% on the first \$125,000 of Managed and Advisory assets.
- ◆ 0.648 of 1% on the next \$ 125,000 of Managed and Advisory assets.
- ◆ 0.466 of 1% on the next \$250,000 of Managed and Advisory assets.
- ◆ 0.335 of 1% on the next \$500,000 of Managed and Advisory assets.
- ◆ 0.25 of 1% will apply to all assets in excess of \$1,000,000 covered under this Agreement.

AFG's investment advisory fee is negotiable at its discretion, depending upon objective and subjective factors including, but not limited to: the amount of assets to be managed; portfolio composition; the scope and complexity of the engagement; the anticipated number of meetings and servicing needs; related accounts; future earning capacity; anticipated future additional assets; the professional(s) rendering the service(s); prior relationships with AFG and/or its representatives, and negotiations with the client. As a result of these factors, similarly situated clients could pay different fees, the services to be provided by AFG to any particular client could be available from other advisers at lower fees, and certain clients may have fees different than those specifically set forth above. **ANY QUESTIONS: AFG's Chief Compliance Officer, Mary E. McCraw, remains available to address any questions that a client or prospective client may have regarding how his/her fees are determined.**

AFG generally imposes a minimum annual investment manage fee of \$600 or \$150 per quarter. Clients in the Young Professional/Physician in Training program may pay lower fees. AFG, in its sole discretion, may waive its annual minimum fee, or charge a flat fee based upon certain criteria, such as anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, physicians in training, competition, account retention or pro bono activities. (See Item 7 below).

### **B. Fee Debit**

Clients authorize AFG to directly debit advisory fees from their custodial account. Both AFG's wealth management agreement and the custodial/clearing agreement authorize the custodian to debit the client's account for the amount of AFG's investment advisory fee and to directly remit

that management fee to AFG in compliance with regulatory procedures. Alternatively, clients may opt to use Advice Pay to pay fees owed to AFG.

The annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by AFG on the last day of the previous billing period.

C. **Additional Fees and Expenses**

In addition to the advisory fees paid to AFG, clients may also incur certain charges imposed by other third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions (collectively “Financial Institutions”). These additional charges may include securities brokerage commissions, transaction fees, custodial fees, charges imposed directly by a mutual fund or ETF in a client’s account, as disclosed in the fund’s prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees and other fees and taxes on brokerage accounts and securities transactions. Such charges, fees and commissions are in addition to AFG’s fee. AFG receives no portion of these additional fees and expenses.

D. **Fees for Management During Partial Quarters of Service / Termination**

For the initial period of investment management services, AFG’s fees are calculated on a pro rata basis.

The Agreement between AFG and the client will continue in effect until terminated by either party pursuant to the terms of the Agreement. AFG’s fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate. The client remains responsible to pay for services rendered until the termination of the Agreement.

Clients may make additions to and withdrawals from their account at any time, subject to AFG’s right to terminate an account. Additions may be in cash or securities provided that AFG reserves the right to liquidate any transferred securities or decline to accept particular securities into a client’s account. Clients may withdraw account assets on notice to AFG, subject to the usual and customary securities settlement procedures. However, AFG designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client’s investment objectives. AFG may consult with its clients about the options and ramifications of transferring and liquidating securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. short-term redemption fees) and/or tax ramifications.

If assets are deposited into or withdrawn from an existing account after the inception of a quarter, the fee payable with respect to such assets will not be adjusted or prorated based on the number of days remaining in the quarter.

E. Neither AFG, nor its representatives, accepts compensation from the sale of securities or other investment products.

**ANY QUESTIONS: AFG’s Chief Compliance Officer Mary E. McCraw, remains available to address any questions that a client or prospective client may have regarding financial planning, investment management, or any other type of fee referenced above.**

## **Item 6. Performance-Based Fees and Side-by-Side Management**

AFG is not a party to any performance or incentive-related compensation arrangements with its clients.

## **Item 7. Types of Clients**

AFG provides its services to individuals, high net worth individuals, pension and profit-sharing plans, trusts, estates, charitable organizations, corporations and business entities.

### Minimum Fee

As set forth in Item 5 above, AFG generally imposes a \$600 minimum annual investment management fee and a \$600 minimum annual Core Fee. This minimum annual Core Fee is waived for clients in the Young Professional Program. Minimum fees may have the effect of making AFG's service impractical for certain clients. AFG, in its discretion, may charge a lesser investment advisory fee, charge a flat fee, waive its fee entirely, or charge fee on a different interval, based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, complexity of the engagement, anticipated services to be rendered, grandfathered fee schedules, employees and family members, courtesy accounts, competition, negotiations with client, etc.).

**Please Note:** As result of the above, similarly situated clients could pay different fees. In addition, similar advisory services may be available from other investment advisers for similar or lower fees. **ANY QUESTIONS: AFG's Chief Compliance Officer, Mary E. McCraw, remains available to address any questions that a client or prospective client may have regarding advisory fees.**

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

### A. Investment Strategies

AFG's investment philosophy is based on the work of two Nobel Laureates: Harry Markowitz and Daniel Kahnemann, which is commonly referred to as Modern Portfolio Theory and Behavioral Finance (specifically, Loss Aversion).

In 1952 Harry M. Markowitz published his ideas on portfolio design, after completing his studies at the University of Chicago and joining the Rand Corporation. His dissertation explained models for applying mathematical methods to the stock market to maximize returns while minimizing risk. Later, publication of his groundbreaking book on portfolio theory earned him the Von Neumann Prize in Operations Research Theory in 1989 and then a Nobel Prize in 1990. His body of work has become known as Modern Portfolio Theory ("MPT").

In addition, a body of thought referred to as Behavioral Finance furthered Markowitz's premise of "Risk Aversion." The work of Professors Kahnemann, Tversky, Thaler and Statmann advanced the concept of "Risk Aversion" into what is now known as "Loss Aversion." This concept meshes with MPT in that the potential short-term loss a portfolio is likely to experience can be statistically defined. This allows the individual investor to select a portfolio based on his own individual risk tolerance, which is defined as "the percentage of an investment

portfolio that an investor is willing to risk to achieve a specific rate of return.” There is no guarantee that a client will not experience a higher percentage decline than is statistically estimated.

Neither Harry Markowitz nor Daniel Kahnemann have a current or past relationship with AFG.

Using these bodies of theory, AFG strives to determine the client’s risk tolerance or emotional willingness to accept loss as defined by the client’s minimum return/maximum loss percentage. Based on historical data, there is a statistically quantified loss in any given portfolio. Since 1992, AFG has used portfolio optimization software that utilizes the principles of MPT. In particular, AFG’s strategy is based on these key points of MPT:

- Portfolio characteristics, not individual security selection, are the keys to performance. The focus of attention is on portfolios as a whole, predicated on explicit risk-return parameters and the identification and quantification of portfolio objectives.
- Under Modern Portfolio Theory, an optimal portfolio exists for any given level of risk. There is a maximum rate of return that should be achievable in the long run for any level of risk that one is willing to accept. Quantitative methods are used for measuring risk and diversification, making it possible to create efficient and theoretically optimal portfolios.

Modern Portfolio Theory is implemented with optimization software at the onset of a client engagement. AFG utilizes the portfolio optimization software to determine the appropriate asset allocation based on the client’s maximum loss percentage. Clients are involved in the ultimate portfolio selection within these parameters. The final portfolio allocation and any necessary modifications are outlined in the Investment Policy Statement. **Please Note:** the use of the firm’s portfolio optimization software does not guarantee that the client’s maximum loss percentage will not be exceeded.

Investment holdings include mutual funds, ETFs and individual bonds or similar fixed income instruments. Some individual stocks may be held in the portfolio at the client’s request or if AFG determines for tax or other reasons to maintain certain positions. AFG does not invest in hedge funds or limited partnership interests. Recommended mutual funds are generally no-load or load waived funds. Load waived funds generally have higher expense ratios than no-load funds and pay 12b-1 fees and other revenue sharing to the custodian. Although AFG does not receive any of these payments, the client’s custodian likely does. AFG benefits from the administrative and other services the custodian provides that assist in both its own administrative operations and its management of client money.

With regard to the selection of individual investment holdings, AFG’s investment committee meets quarterly to determine the appropriate holdings for each asset class. On at least a weekly basis (typically daily), AFG utilizes conditional rebalancing in order to maintain the integrity of the allocation in individual client portfolios using a 25% variance as the trigger-point for rebalancing.

## B. **Risks of Loss**

### General Risk of Loss

Investing in securities involves risk of loss that clients should be prepared to bear, including the loss of principal investment. Past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by AFG) will be profitable or equal any specific performance level(s). Investment strategies such as asset allocation, diversification, or rebalancing do not assure or guarantee better performance and cannot eliminate the risk of investment losses. There is no guarantee that a portfolio employing these or any other strategy will outperform a portfolio that does not engage in such strategies. While asset values may increase and client account values could benefit as a result, it is also possible that asset values may decrease and client account values could suffer a loss.

### Market Risks

The profitability of a significant portion of AFG's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that AFG will be able to predict those price movements accurately.

## C. Mutual Funds and ETFs

**Mutual Fund Risk.** Mutual funds are operated by investment companies that raise money from shareholders and invests it in stocks, bonds, and/or other types of securities. Each fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. Mutual funds charge a separate management fee for their services, so the returns on mutual funds are reduced by the costs to manage the funds. While mutual funds generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market. Mutual funds that are sold through brokers are called load funds, and those sold to investors directly from the fund companies are called no-load funds. Mutual funds come in many varieties. Some invest aggressively for capital appreciation, while others are conservative and are designed to generate income for shareholders. In addition, the client's overall portfolio may be affected by losses of an underlying fund and the level of risk arising from the investment practices of an underlying fund (such as the use of derivatives).

**Exchange Traded Fund Risk.** ETFs are marketable securities that are designed to track, before fees and expenses, the performance or returns of a relevant index, commodity, bonds or basket of assets, like an index fund. Unlike mutual funds, ETFs trade like common stock on a stock exchange. ETFs experience price changes throughout the day as they are bought and sold. In addition to the general risks of investing, there are specific risks to consider with respect to an investment in ETFs, including, but not limited to: (i) the price of an ETF may or may not fluctuate with the price of the underlying securities that make up the fund; (ii) the ETF may employ an investment strategy that utilizes high leverage ratios; or (iii) trading of an ETF's shares may be halted if the listing exchange's officials deem such action appropriate, the shares are de-listed from the exchange, or the activation of market-wide "circuit breakers" (which are tied to large decreases in stock prices) halts stock trading generally.

## **Item 9. Disciplinary Information**

AFG does not have any legal or disciplinary events to disclose that are material to a client's or prospective client's evaluation of its advisory business or the integrity of its management.

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

- A. Neither AFG, nor its representatives, is registered or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither AFG, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or representative of the foregoing.
- C. AFG does not receive, directly or indirectly, compensation from other investment advisers that it recommends or selects for its clients.

## **Item 11. Code of Ethics**

- A. AFG has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws ("Code of Ethics"). In accordance with Section 204A of the Investment Advisers Act of 1940 (the "Advisers Act"), its Code of Ethics contains written policies reasonably designed to prevent the unlawful use of material non-public information by AFG or any of its associated persons. The Code of Ethics also requires that certain of AFG's personnel (called "Access Persons") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings. Clients and prospective clients may contact AFG to request a copy of its Code of Ethics.
- B. Neither AFG nor any related person of AFG recommends, buys, or sells for client accounts, securities in which AFG or any related person of AFG has a material financial interest.

AFG and persons associated with AFG ("Associated Persons") are permitted to buy or sell securities that it also recommends to clients consistent with AFG's policies and procedures. Unless specifically permitted in AFG's Code of Ethics, none of AFG's Access Persons may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the Access Person) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of AFG's clients. This practice may create a situation where AFG and/or AFG's representatives are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a conflict of interest. Practices such as "scalping" (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if AFG did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, "front-running" (i.e., personal trades executed prior to those of AFG's clients) and other potentially abusive practices.

AFG has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of AFG's "Access Persons." AFG's securities transaction policy requires that an Access Person of AFG must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person's current securities holdings at least once each twelve (12) month period thereafter on a date AFG selects.

- C. When AFG is purchasing or considering for purchase any security on behalf of a client, no Access Person may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when AFG is selling or considering the sale of any security on behalf of a client, no Access Person may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

## **Item 12. Brokerage Practices**

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

Factors that AFG considers in recommending Fidelity (or any other broker-dealer/custodian to clients) include historical relationship with AFG, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by AFG's clients shall comply with AFG's duty to seek best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where AFG determines, in good faith, that the commission/transaction fee is reasonable. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although AFG will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are in addition to AFG's investment management fee.

### **1. Research and Additional Benefits**

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, AFG can receive from

Fidelity (or another broker-dealer/custodian, investment manager, platform sponsor, mutual fund sponsor, or vendor) without cost (and/or at a discount) support services and/or products, certain of which assist Fidelity to better monitor and service client accounts maintained at such institutions. Included within the support services that can be obtained by AFG can be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support-including client events, computer hardware and/or software and/or other products used by AFG in furtherance of its investment advisory business operations.

AFG clients do not pay more for investment transactions effected and/or assets maintained at Fidelity as the result of this arrangement. There is no corresponding commitment made by Fidelity to any broker-dealer or custodian or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products because of the above arrangements.

**AFG's Chief Compliance Officer, Mary E. McCraw remains available to address any questions that a client or prospective client may have regarding the above arrangements and the conflicts of interest these arrangements create.**

2. **Brokerage for Client Referrals:** AFG does not receive referrals from broker-dealers.
3. **Directed Brokerage:** AFG recommends that its clients utilize the brokerage and custodial services provided by Fidelity. AFG does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer) but could make exceptions. A directed brokerage arrangement arises when a client requires that account transactions be effected through a specific broker-dealer/custodian, other than one generally recommended by AFG (i.e., Fidelity). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Firm will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by AFG. As a result, a client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. In the event that the client directs AFG to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through AFG. Higher transaction costs adversely impact account performance. Transactions for directed accounts will generally be executed following the execution of portfolio transactions for non-directed accounts.



B. **Aggregation.** The transactions for each client account generally will be effected independently, unless AFG decides to purchase or sell the same securities for several clients at approximately the same time. AFG may (but is not obligated to) combine or “bunch” such orders to seek best execution, to negotiate more favorable commission rates or to allocate equitably among AFG’s clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. In the event that the Firm becomes aware that a Firm employee seeks to trade in the same security on the same day, the employee transaction will either be included in the “batch” transaction or transacted after all discretionary client transactions have been completed. AFG will not receive any additional compensation or remuneration because of aggregation. If client orders are effected independently and not aggregated, some clients may receive better execution prices than others. AFG will always act in the best interests of its clients.

### **Item 13. Review of Accounts**

For those clients to whom AFG provides investment management services, AFG monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom AFG provides financial planning and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by one of AFG’s investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with AFG and to keep AFG informed of any changes thereto. AFG contacts ongoing investment advisory clients at least annually to offer to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client’s financial situation and/or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom AFG provides investment advisory services will also receive a report from AFG that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance on a quarterly basis. Clients should compare the account statements they receive from their custodian with those they receive from AFG.

Those clients to whom AFG provides financial planning and/or consulting services will receive reports from AFG summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by AFG. AFG will not provide an on-going review for these clients, unless specifically requested by the client.

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

A. As referenced in Item 12 above, AFG receives economic benefits from Fidelity. There is no corresponding commitment made by AFG to Fidelity, or to any other entity, to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

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

- B. Neither AFG, nor any related person of AFG, maintains solicitor arrangements/pay referral fee compensation to non-employees for new client introductions.

### **Item 15. Custody**

AFG shall have the ability to deduct its advisory fee from the client's custodial account on a quarterly basis. Clients are provided with written transaction confirmation notices, and a written summary account statement directly from the custodian (i.e., Fidelity, etc.) at least quarterly.

To the extent that AFG provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by AFG with the account statements received from the account custodian.

The account custodian does not verify the accuracy of AFG's advisory fee calculation.

Certain clients have established asset transfer authorizations that permit the qualified custodian to rely upon instructions from AFG to transfer client funds or securities to third parties. These arrangements are disclosed at Item 9 of Part 1 of Form ADV. In accordance with the guidance provided in the SEC's February 21, 2017 *Investment Adviser Association* No-Action Letter, the affected accounts are not subject to an annual surprise CPA examination. However, as the result of password possession, AFG also discloses at Item 9 of Part 1 of Form ADV that it undergoes an annual surprise CPA examination, and makes a corresponding annual Form ADV-E filing with the SEC. **AFG's Chief Compliance Officer, Mary E. McCraw, remains available to address any questions that a client or prospective client may have regarding custody-related issues.**

### **Item 16. Investment Discretion**

The client can determine to engage AFG to provide investment advisory services on a discretionary basis. Prior to engaging AFG to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with AFG setting forth the terms and conditions under which AFG shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

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

AFG takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold; and

- When transactions are made.

#### **Item 17. Voting Client Securities**

AFG does not vote client proxies. Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets.

Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact AFG to discuss any questions they may have with a particular solicitation.

In the extremely limited event that AFG agrees to vote a client proxy absent mitigating circumstances and/or express written direction from the client, AFG shall vote per the recommendation of the issuer's management.

AFG will not be responsible and each client has the right and responsibility to take any actions with respect to any legal proceedings, including without limitation, bankruptcies and shareholder litigation, and the right to initiate or pursue any legal proceedings, including without limitation, shareholder litigation, including with respect to transactions, securities or other investments held in the client's account or the issuers thereof. AFG is not obligated to render any advice or take any action on a client's behalf with respect to securities or other property held in the client's account, or the issuers thereof, which become the subject of any legal proceedings, including without limitation, bankruptcies and shareholder litigation, to which any securities or other investments held or previously held in the account, or the issuers thereof, become subject.

AFG will provide a copy of the full Proxy Voting Policy to clients or prospective clients upon request.

#### **Item 18. Financial Information**

- A. AFG does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance.
- B. AFG is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. AFG has not been the subject of a bankruptcy petition.

**ANY QUESTIONS: AFG's Chief Compliance Officer, Mary E. McCraw, remains available to address any questions regarding this ADV Part 2A, Firm Brochure.**