

# HOMETOWN Financial Planning

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## DISCLOSURE STATEMENT

THE INFORMATION PROVIDED IN THIS DISCLOSURE STATEMENT HAS NOT BEEN PASSED UPON OR APPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON OR APPROVED THE QUALIFICATIONS OR BUSINESS PRACTICES OF HOMETOWN FINANCIAL PLANNING.

This document has been filed with the Department of Commerce of the State of Minnesota and will be given to each new perspective client as required by Minnesota Rules 2875.1051 and is to be used in conjunction with Part II of Form ADV filed with the Securities and Exchange Commission.

REVISED

April 2001

**Terry Warren Nelson, CFP™ MS** is Licensed or Registered with the following Governmental Departments, Boards or Associations:

<i>Certified Financial Planner Board of Standards, Inc:</i> License number is:	<b>052071</b>	1(303) 830-7543
<i>Financial Planning Association (FPA):</i> License Number is: . . . . .	<b>33519</b>	1(800) 322-4237
<i>Minnesota Department of Commerce:</i> Insurance License Number is: . . .	<b>0013312</b>	1(612) 296-6319
<i>Securities and Exchange Department:</i> Registration Number is: . . . . .	<b>801-46663</b>	1(312) 353-7390

## INTRODUCTION

HOMETOWN Financial Planning, a Minnesota sole proprietorship, is a Personal Financial Advisory and Planning Firm specializing in Personal Financial Planning Advice and Asset Management Assistance. Clients may select from a variety of services, categorized as **Financial Planning Services, Portfolio Construction and Investment Supervisory / Asset Management Services** and **Plan Implementation Services**.

As an integral part of its services, HOMETOWN Financial Planning provides general advice regarding investments. Therefore, the firm is registered with the Securities and Exchange Commission and the Department of Commerce of the State of Minnesota as an Investment Adviser. This disclosure statement is provided in accordance with rule 204-3 under the Investment Advisers Act of 1940. We will provide you with a copy of our Form ADV Part II (application for registration as an Investment Advisor) before entering any agreement.

This disclosure statement provides a potential client with an understanding of Terry Nelson, CFP<sup>TM</sup> MS approach to Investment Advice, Portfolio Construction, Asset Allocation and Financial Planning. This disclosure statement also includes information about the experience and education of the Firm's personnel, the Firm's methods of compensation and the disclosure of possible conflicts of interest.

The **CLIENT SERVICES AGREEMENT**, is an integral part of this **Disclosure Statement**, as is **Part II of the Form ADV**, and are incorporated by reference. This disclosure statement should be read in its entirety prior to entering an agreement with HOMETOWN Financial Planning.

## OUR MISSION

**"To provide the highest quality financial advice and personal service possible to between 50 and 70 high income or net worth clients, helping them set and meet goals by wisely making money and keeping it."**

## ABOUT HOMETOWN FINANCIAL PLANNING

Our Commitment and Responsibility to our clients guides HOMETOWN Financial Planning. Our work requires a relationship of trust and confidence. We understand that our work as Investment Advisers and Personal Financial Planner's will affect our clients' destinies. We help our clients achieve financial independence, educate their children, enjoy a secure retirement and/or leave a lasting legacy to society. HOMETOWN Financial Planning is committed to continuing education, with the objective of providing the highest quality Financial Advice possible.

HOMETOWN Financial Planning provides assistance in the planning of a client's overall financial affairs. The firm serves as Financial Adviser and Planner for individuals, corporations, entrepreneurs, trusts and small businesses. HOMETOWN Financial Planning's staff works with the client and their other advisors, providing Investment Advice, Financial Planning Consultation and over-all coordination on a personal basis.

The three major components of our Personal Financial Services are:

- **Financial Planning Services**, which includes initial financial advice and miscellaneous financial advice. The advice is based on extensive data gathering, of any and all information that would effect the clients current financial situation and future goals, all of which is the responsibility of the Client to provide. This is the most important and time-consuming step in the Financial Planning Process. As a part of the initial advice the advisor will help the Client design and construct an initial investment portfolio.  
*(Note: if the client wants ongoing Asset Management Services, this is part of the next component listed as Asset Management Services).*

- **Asset Management Services, Investment Supervisory and Portfolio Construction**, which include the design, construction and management of an investment portfolio, consistent with Clients financial constraints, objectives, time horizon, risk tolerance and prevailing economic conditions. The development of a portfolio is done initially as part of the financial planning process. However, ongoing **Asset Management Services / Investment Supervisory** are recommended as it is usually in the Clients best interest.
- **Plan Implementation Services**, includes the use of financial products for the purpose of implementing and achieving the client's goals and objectives. It is important for the client to realize that, while the planner is committed to the best interests of the client, that as a result of this process the planner may receive a commission for some of these services, and therefore a Conflict Of Interest may exist.

## **FINANCIAL PLANNING SERVICES**

**Financial Planning Services** involve reviewing the Client's financial affairs, creating a financial plan, and aiding the Client in implementing agreed-upon recommendations. The process begins with an initial consultation, at no charge. The purpose is to determine if the Client can benefit from Financial Planning and to what extent our services are needed. Before the Client can be obligated to pay any kind of fees, the Client and advisor will take time to understand each others needs, and come to agreement on the scope of the planning and the fees to be charged. Then both parties sign the annually renewable CLIENT SERVICES AGREEMENT.

Financial Planning requires a clear understanding of the Client's current situation. Areas of examination include assets, liabilities, income, expenses, potential income taxes and estate taxes, trust agreements, wills, investments, insurance, personal and family obligations and employee benefit programs. The Client is expected to provide complete information in all relevant areas.

The various financial planning issues of concern to the Client and our recommendations are discussed orally and in writing, in a series of meetings with the Client. Upon agreement regarding specific recommendations and approval by the Client, an agreed-upon course of action is implemented.

All information and recommendations furnished by HOMETOWN Financial Planning to the Client and all information furnished by the Client to HOMETOWN Financial Planning, *Shall At All Times Be Held In Confidence, and Shall Not Be Disclosed To Third Persons except as required by law or by the prior consent of the Client.*

### FINANCIAL PLANNING PHILOSOPHY

Most people can profit from assistance in managing their financial affairs. Not all people, though, need to have a written Personal Financial Plan. Everyone, however, can benefit from the Financial Planning Process, a procedure designed to find alternative solutions to specific financial problems as well as to promote more efficient management of one's financial affairs.

Proper Financial Planning identifies specific goals and objectives. The process requires a complete review of a client's Assets, Retirement Benefit Programs, Insurance Contracts, Potential Income and Estate Taxes, Wills and Trust Agreements, and other related matters.

We believe the Financial Planner who gives financial advice, should become actively involved in implementing the recommendations approved by the Client. The best thought-out plan is no more than an expensive academic exercise unless it leads to action. HOMETOWN Financial Planning takes pride in providing high-quality, intense personal service in helping Clients achieve their financial objectives.

### INITIAL FINANCIAL PLANNING SERVICES

Initial Financial Planning focuses on ways to achieve the Clients personal goals such as funding children's college education, achieving financial independence, and providing adequate funds for dependents in the event of premature death. Many of the most typical Client concerns are listed on the schedule titled FINANCIAL ADVISORY, PLANNING AND OTHER SERVICES attached to the CLIENT SERVICES AGREEMENT.

Our goal is to determine the optimum course of action for the realization of Client financial planning objectives, taking into consideration Client needs, earning power, financial resources, and particular aversion to risk.

Clients are provided with personalized oral financial planning advice that is designed to help them identify, prioritize and achieve their financial goals in all relevant areas. Such advice normally involves the development of specific strategies, alternatives and integrated solutions.

### ONGOING FINANCIAL PLANNING SERVICES

After the initial planning process, the Client's goals and economic conditions continue to change. Tax law revisions, inflation rate changes, interest rate fluctuation and changes in investment mediums, combined with changes in the Client's personal situation, require that Financial and Tax Planning be an ongoing process.

HOMETOWN Financial Planning offers ongoing Financial Planning and Goal Tracking for periodic review, and revision of the major components of a Client's Financial Plan to help insure that goals are being achieved. These services are performed at least annually, only after the next CLIENT SERVICES AGREEMENT is signed by both the Client and the Advisor, for the next year. There is a need for an annually renewable contract, because it is extremely important for the planner to review even the smallest changes in the client's future financial situation. If a client does not believe that much if anything has changed in their personal financial situation, then procrastinates or even refuses to participate, in even the most basic review of the plan, the planner cannot be (and is not) held responsible, if the plan has not been adequately reviewed and updated. We strongly encourage the review of the plan at least annually and usually semi-annually.

Ongoing Financial Planning Services are available to all Clients who have completed the initial Financial Planning Process.

***Ongoing Financial Planning does not include the ongoing monitoring, management, review or surveillance of investments or other assets on an automatic basis. These services which are offered separately, are part of the Ongoing Investment Supervisory / Management Services, for which a fee is charged.***

However, as stated above, to encourage the review of the Portfolio at least annually, HOMETOWN Financial Planning will perform one hour of annual review each year, at no cost to the client, for all clients who have entered a contract the previous year.

### MISCELLANEOUS FINANCIAL ADVICE

Miscellaneous Financial Advice may be requested without Comprehensive Financial Planning Services for specific financial concerns of limited scope, at the hourly rate stated in the CLIENT SERVICES AGREEMENT. For example, evaluating the feasibility of purchasing a new home or generic advice on existing investment portfolios would fall in this category.

### **ASSET MANAGEMENT SERVICES / INVESTMENT SUPERVISORY and PORTFOLIO CONSTRUCTION**

This service is designed for those Clients who have already started the financial planning process, or who specifically desire **Asset Management Services / Investment Supervisory**. These may include Individuals Clients, Pension Plans or Trusts. These services include the design and construction of an investment portfolio consistent with Client financial constraints and objectives, time horizon, risk tolerance and prevailing economic conditions, and continued management of the portfolio.

Asset Allocation helps us determine what types of assets to include or exclude from portfolio and in what proportion those asset types should be held. We design "balanced" investment portfolios. No two portfolios are alike. The funds of all portfolios are allocated to several different asset classes, including cash and cash equivalents, various types of fixed income securities and equities. Also, various management styles and levels of risk concerning equity and other investments are considered. We at HOMETOWN Financial Planning believe, primarily (but not exclusively), in a Buy-and-Hold Strategy for the long-term accumulation of funds.

#### INITIAL ASSET ALLOCATION

HOMETOWN Financial Planning analyzes the Client's current investments and makes recommendations regarding the retention, purchase or sale of investments. As far as possible, we attempt to move the Client's portfolio toward a strategy which we believe would most appropriate for the goals and risk aversion of the particular Client. Some clients may have certain beliefs regarding Portfolio Management, which we do not share. This is neither right nor wrong, however, in such a situation we would not be able to help that client or be responsible for that clients results.

#### ONGOING ASSET ALLOCATION AND MONITORING

HOMETOWN Financial Planning constantly monitors the economic environment and recommends/assists Client's in making investment decision's regarding the Client's investment portfolio. We actively manage the Client's investment portfolio *with the Clients input*. Also, we do not *hold, take custody of or have Clients assets directed to the Advisor* at any time (except for the payment of fees).

The Client's Investment Portfolio will be reviewed and re-evaluated during the year if either the client or we feel it is necessary and on an annual basis, upon the signing of the next years CLIENT SERVICES AGREEMENT. HOMETOWN Financial Planning will assist in implementing any mutually agreed upon changes. The Client acknowledges the risk is involved in any investment and that any investment may or may not perform as expected.

#### INVESTMENT PHILOSOPHY

The major guidelines adhered to by HOMETOWN Financial Planning in recommending Investment Advice and Strategies are:

**Recognition of Risk:** An investment strategy must be based upon an understanding of both the risk of capital loss (market risk), and the risk of purchasing power loss (inflation risk). Risks associated with an inordinate lack of liquidity, fluctuations in the cost of money and the possibility of a decrease in the overall price level must be addressed. In addition, we believe it is important to minimize volatility of the total portfolio.

**Balance of Assets:** Proper investment planning requires a balanced approach, with due consideration to short and long term liquidity needs, the blending of lower and higher risk approaches, and the combination of income and growth oriented investments.

**Total Return:** In the Portfolio Construction Process, we focus on total return, which is current income plus growth in value. If current income is needed on a regular basis to meet living expenses, those funds may be obtained either from investment income or from selling a portion of the asset growth.

**Economic Considerations:** Current and anticipated economic cycles and macro-economic changes are monitored in order to allocate portions of the Client's investment assets into areas of future growth. We believe successful investment performance is primarily a function of proper Asset Allocation and consistent portfolio performance, rather than asset timing or specific investment selection.

**Diversification:** There are no simple answers to investment decisions in our volatile economy. We believe diversification in a variety of investment vehicles is essential to balancing risk.

**Discipline:** Investment Planning requires a disciplined approach. Short-Term emotional decisions often defeat a well-designed investment program. The investor must feel comfortable with a Long-Term Investment Philosophy that is designed to achieve results over a full investment cycle.

**Income Tax Considerations:** Income tax considerations are important in Investment Planning. However, it is essential to recognize that economic return is of prime importance. Income tax considerations may not be the primary consideration in investment decisions. Proper tax planning requires a long-term view of tax reduction and deferral rather than a "quick-fix" at year-end.

## **PLAN IMPLEMENTATION PROCESS**

The Plan Implementation Process quite often includes the use of financial products for the purpose of implementing the clients goals and objectives. It is important for the client to realize that, while the planner is committed to the best interests of the client, because of this process the planner may sometimes receive commissions for this service. It is also important to understand that, while it may make the most sense for the client to have the planner who did the plan, also perform the implementation, the Client is not required to use the planner's products in the process of Plan Implementation. *You the Client are not required in any way to purchase financial products from the planner who prepared your plan, in order to implement of your plan.*

When implementing securities transactions, HOMETOWN Financial Planning uses the services of **TD Waterhouse Institutional Services** to place investment orders and transactions. TD Waterhouse Institutional Services is independently owned and not affiliated with any product supplier or vendor.

When implementing insurance transactions, HOMETOWN Financial Planning is licensed with many quality companies such as Kemper Life and any number of other quality companies, all of which are used as specialized products to help meet the specific needs of each individual client.

## **FEES**

For general **Financial Planning Services**, there is an initial Setup/Planning Fee. The amount of the fee will depend on the complexity and scope of the Client's needs. This initial Setup/Planning Fee is based on, an estimated number of hours the advisor will need to do proper planning, together with the advisors hourly rate of \$150. This Setup/Planning Fee may be somewhat negotiable, but must be agreed upon, and recorded in the CLIENT SERVICES AGREEMENT, by both the client and the advisor, *before any fee will be charged.*

Full service financial planning advice is charged for on a fixed fee basis, agreed upon by the Client and the Advisor. Advisory fees will range from \$1,000 to more than \$5,000 depending on how extensive the Clients needs may be. Fixed Planning Fees are payable upon signing the CLIENT SERVICES AGREEMENT.

For **Asset Management Services / Investment Supervisory Services**, Clients will be charged an annualized Asset Management Fee based on the value of the assets managed (at the end of each quarter). Asset Management Fees are based on the following table:

- 80 basis points per year (or 0.8%) on the next \$1 million
- 60 basis points per year (or 0.6%) on amounts in excess of \$1 million

The fee is payable quarterly, with the first payment due at the beginning of each calendar year quarter following the execution of the CLIENT SERVICES AGREEMENT. Fees will be based on the closing assets balance held in the account on the last day of the previous quarter.

Fees will be deducted directly form the account and pro-rated from the date the contract is signed to the next calendar quarter. Consequently, the first advisory fee will be pro-rated from the quarter past.

**Clients may also incur charges by third parties other than those imposed by the Investment Advisor.**

These fees may include, but are not limited to all transaction costs, normal brokerage account fees, certain 12B-1 distribution fees (trail commissions), Contingent Deferred Sales Charges on mutual fund and previously purchased mutual funds and IRA and Qualified Retirement Plan fees.

*Clients Are Under No Obligation To Select Any Broker Dealer Or Insurance Company For The Implementation Of Any Planning Service Recommendations Or Advice.* However, should clients utilize the services of the Advisor in his capacity as a registered investment advisor or insurance agent he will receive a hourly or flat fee,

ongoing management fees, usual and customary commissions or any combination thereof. *On occasion, fees may be waived or partially offset by commissions.*

The Client or the Advisor may terminate the relationship at any time by notifying the other party by certified mail. The hourly pro-rated portion of *Unearned Prepaid Fees* (of \$150 per hour) will be returned to the client within 5 business days.

For **Plan Implementation Services**, there are no charges when it is part of the original Financial Plan. However, it is important to understand that the Planner may receive a commission from the implementation of financial products. If there is no commission on certain products or services there may be an hourly fee. All services other than those listed above will be billed at an hourly rate of \$150.

## **POSSIBLE CONFLICTS OF INTEREST**

The performance of any professional service involves certain Conflicts of Interest, which are sometimes unavoidable. It is the duty of the professional in delivering these services to disclose these conflicts and to minimize them to the fullest extent possible.

It is important to understand that the traditional method of compensation for the majority of financial products in the past and for the most part, still today, has been commissions. Therefore, some of the potential Conflicts Of Interest we may face are unavoidable.

While we at HOMETOWN Financial Planning are concerned about the inherent Conflict Of Interest in commission only compensation, it is also true that in most cases commission is absolutely unavoidable, as it is built into most financial products in one form or another. While HOMETOWN Financial Planning is committed to Fee Based planning and using the best products available to meet our Clients needs, we feel that it is not in the clients best interest to promise to use only non-commission products, which may not even best match the clients needs and then raise our rates to compensate.

In conducting the Financial Planning Process, we may recommend that, we be considered to build the investment portfolios for our Clients. This could result in the Client paying us a Financial Planning Fee along with generating a commission.

HOMETOWN Financial Planning can and does, affect insurance transactions for commission compensation as broker or agent for Clients, when that product best fits the needs of the client. However, HOMETOWN Financial Planning is committed to the use of products that are in the Client's best interest. Therefore, a product's commission will be taken into account to determine appropriateness for Clients needs, but it will not be the deciding factor, nor should it be. Again, while HOMETOWN Financial Planning can receive a commission because of its Plan Implementation Services, it is intended that our primary source of compensation be the fee's charged.

Terry Nelson, CFP<sup>TM</sup> MS is a life / disability insurance representative. These licenses are held to effect Financial Advisory and Implementation Services for clients, not for the sole purpose of transacting securities or insurance business. If the Planner is to receive commissions, the Planner will always disclose in what amount they will be received.

Associates of the Firm may have positions from time to time in securities that Clients may also own. Recommendations to Clients may differ from Client to Client due to the unique circumstances relating to each Client.

## STAFF AND OUTSIDE ADVISERS

Terry Nelson, CFP™ MS, the sole owner of HOMETOWN Financial Planning is a well-trained Financial Planner capable of providing sound Financial Advice to his Clients. HOMETOWN Financial Planning also utilizes outside advisers when necessary.

### EDUCATION AND BACKGROUND OF KEY PERSONNEL

Terry Nelson, CFP™ MS, has been in the financial services industry since 1985 and began his practice as a Financial Advisor / Certified Financial Planner in March of 1994. The *Certified Financial Planner Board of Standards, Inc.* currently licenses Mr. Nelson to use the Certified Financial Planner and CFP™ marks. He is an active member in good standing of the Financial Planning Association. He is also very active in his local community promoting high standards of conduct, technical knowledge and professionalism in the industry. As a member of the local chapter of the Financial Planning Association of Minnesota, Terry Nelson, CFP™ MS has served as a board member for a number of years as well as serving on a number of committees.

Terry Nelson, CFP™ MS was born in 1963 in Wisconsin where he grew up. After high school, he graduated with an Associates Degree in Law Enforcement from Eau Claire Community College in 1984. He also attended Mankato State University from 1984 to 1985 where he studied law enforcement. Mr. Nelson has worked in the insurance industry as a health, annuity and life insurance representative until 1991, when he began specializing in personal financial planning for clients. He also then entered the College for Financial Planning of Denver Colorado studying to become a **Certified Financial Planner**. Then from 1995 to 1997, Mr. Nelson attended Metro State University, where he graduated with **Finance Major**. Mr. Nelson has received a **Master of Science Degree** in the area of Financial Planning from the College of Financial Planning of Denver Colorado in January of 2001.

Terry Nelson, CFP™ MS teaches Financial Planning and Investment Management courses for the College of Financial Planning.

Terry Nelson, CFP™ MS is personally dedicated to continuing his education in the area's of Investment Advice, Portfolio Management and Financial Planning as a way to ensure the best possible service to his advisory clients. His overall focus is on helping individuals achieve greater control over, and improved performance in, their financial affairs.

### OUTSIDE ADVISERS

HOMETOWN Financial Planning recognizes that proper Financial Planning requires a high degree of specialization in certain areas. Therefore, HOMETOWN Financial Planning maintains relationships with outside specialist and consultants in many areas. Such outside advisers include other Investment Advisory Firms, Attorneys, Certified Public Accountants, Insurance Specialists, a Securities Brokerage Firm, Qualified Plan Benefit Consultants, and Real Estate Specialists.

All clients are encouraged, at all times, to ask any questions they feel have relevance to their financial situation or the Advisors ability to adequately service their financial needs. We at HOMETOWN Financial Planning believe that a highly personal and long-term relationship is vital to be able to help each Client meet their individual goals and needs. We want to take the time necessary to help each Client understand and feel comfortable with every aspect, of what it takes to achieve their Financial Goals and Needs.

By signing and dating below, you are indicating that you have both, **read** and **understand** the content of this Disclosure Statement, and also that you have been given a copy if this Disclosure Statement for your own records.

Client: \_\_\_\_\_

Date: \_\_\_\_\_

Client: \_\_\_\_\_

Date: \_\_\_\_\_

Planner: \_\_\_\_\_

Date: \_\_\_\_\_