

**Part 2A of Form ADV: *Firm Brochure***  
**Bates Financial Advisors, Inc.**

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This brochure provides information about the qualifications and business practices of Bates Financial Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at 815-332-4020 or [info@batesfinancialadvisors.com](mailto:info@batesfinancialadvisors.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Bates Financial Advisors, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 Summary of Material Changes**

This Item will be used to provide our clients with a summary of new and/or updated information.

Since our last annual update dated March 30, 2018, we have had the following material changes to this brochure:

Item 4 has been amended to reflect the new ownership of the firm. The firm is now owned by QCR Holdings, Inc., a publically traded company.

Item 15 has been amended to reflect that a related person of the firm is deemed have custody of certain client assets.

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## **Item 4 Advisory Business**

Bates Financial Advisors, Inc. is a SEC-registered investment adviser with its principal place of business located in Illinois. Bates Financial Advisors, Inc. began conducting business in 1984.

QCR Holdings, Inc., a publically traded company, owns Bates Financial Advisors, Inc.

Bates Financial Advisors, Inc. offers the following advisory services to our clients:

### **INVESTMENT PORTFOLIO MANAGEMENT**

Our firm provides non-continuous asset management of client funds based on the individual needs of the client. Through personal discussions in which goals and objectives based on the client's particular circumstances are established, we develop the client's personal investment policy. We create and manage a portfolio based on that policy. During our data-gathering process, we determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. As appropriate, we may also review and discuss a client's prior investment history, as well as family composition and background.

We manage these advisory accounts on a discretionary or non-discretionary basis. Account supervision is guided by the client's stated objectives (i.e., maximum capital appreciation, growth, income, or growth and income), as well as tax considerations.

Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

Once the client's portfolio has been established, we review the portfolio at least annually, and if necessary, suggest or implement changes to the portfolio based on the client's needs.

Our investment recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company and will generally include advice regarding the following securities:

- Mutual fund shares
- Money market accounts or cash equivalents
- United States governmental securities
- Certificates of deposit
- Variable life insurance
- Variable annuities
- 529 plans
- Other

Because some types of investments involve certain additional degrees of risk, they will only be recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

### **FINANCIAL PLANNING**

We provide financial planning services. Financial planning is a comprehensive evaluation of a client's current and future financial state by using currently known variables to predict future cash flows, asset values and withdrawal plans. Through the financial planning process, all questions, information and analysis are considered as they impact and are impacted by the entire financial and life situation of the client. Clients purchasing this service may receive a written report which provides the client with a detailed financial plan designed to assist the client achieve his or her financial goals and objectives.

In general, the financial plan may address any or all of the following areas:

**PERSONAL:** We review family records, budgeting, personal liability, estate information and financial goals.

**TAX & CASH FLOW:** We analyze the client's income tax and spending and planning for past, current and future years; then illustrate the impact of various investments on the client's current income tax and future tax liability.

**INVESTMENTS:** We analyze investment alternatives and their effect on the client's portfolio.

**INSURANCE:** We review the adequacy of specific types of insurance coverage, which will not include the client's medical, long-term, property or casualty policies, such as homeowner's and automobile policies.

**RETIREMENT:** We analyze current strategies and investment plans to help the client achieve his or her retirement goals.

**DEATH & DISABILITY:** We review the client's cash needs at death, income needs of surviving dependents, estate planning and disability income.

**ESTATE:** We assist the client in assessing and developing long-term strategies, including as appropriate, living trusts, wills, review estate tax, powers of attorney, asset protection plans, nursing homes, Medicaid and elder law.

We garner relevant client information through in-depth personal interviews. Such information may include the client's current financial status, tax status, future goals, returns, objectives and attitudes towards risk. We carefully review documents supplied by the client, including any questionnaire completed by the client, and may prepare a written report. Should the client choose to implement the recommendations contained in the plan, we suggest the client work closely with his/her attorney, accountant, insurance agent, and/or stockbroker. Implementation of financial plan recommendations is entirely at the client's discretion.

We also provide general non-securities advice on topics that may include tax and budgetary planning, estate planning and business planning. Typically the financial plan is presented to the client within six months of the contract date, provided that all information needed to prepare the financial plan has been promptly provided.

Financial Planning recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company.

## **CONSULTING SERVICES**

Clients can also receive investment advice on a more focused basis. This may include advice on only an isolated area(s) of concern such as estate planning, retirement planning, or any other specific topic. We also provide specific consultation and administrative services regarding investment and financial concerns of the client.

Consulting recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company.

## AMOUNT OF MANAGED ASSETS

As of February 28, 2019, we actively manage \$431,868,061 of clients' assets on a discretionary basis and \$5,907,021 of clients' assets on a non-discretionary basis.

## Item 5 Fees and Compensation

Quarterly fees may be deducted from client accounts or invoiced directly to the client.

### INVESTMENT PORTFOLIO MANAGEMENT SERVICES FEES

Our annual fees for Investment Portfolio Management Services are based upon a percentage of assets under management and generally range from 0.30% to 1.00%.

The annualized fee for Investment Portfolio Management Services will be charged as a percentage of assets under management, using either a flat percentage or according to the following tiered schedule:

	Account Value	Quarterly Rate	Annualized Rate
On the first	\$ 500,000	0.2500%	1.00%
On the next	\$ 1,000,000	0.1875%	0.75%
On the next	\$ 3,500,000	0.1250%	0.50%
Above	\$ 5,000,000	0.0875%	0.35%

A minimum of \$100,000 of assets under management is required for this service. This account size may be negotiable under certain circumstances. A minimum quarterly fee of \$175 will be assessed. Bates Financial Advisors, Inc. may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee.

**Limited Negotiability of Advisory Fees:** Although Bates Financial Advisors, Inc. has established the aforementioned fee schedule(s), we retain the discretion to negotiate alternative fees on a client-by-client basis. Client facts, circumstances and needs will be considered in determining the fee schedule. These include the complexity of the client, assets to be placed under management, anticipated future additional assets; related accounts; portfolio style, account composition, and reports, among other factors. The specific annual fee schedule will be identified in the contract between the adviser and each client.

We may group certain related client accounts for the purposes of achieving the minimum account size requirements and determining the annualized fee.

Discounts, not generally available to our advisory clients, may be offered to family members and friends of associated persons of our firm.

### FINANCIAL PLANNING FEES

Bates Financial Advisors, Inc.'s Financial Planning fee will be determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client.

Our Financial Planning fees may be calculated and charged on an hourly basis, ranging from \$75 to \$1,000 per hour. Although the length of time it will take to provide a Financial Plan will depend on each client's personal situation, we will provide an estimate for the total hours at the start of the advisory relationship.

Alternatively, our Financial Planning fees may be calculated and charged on a fixed fee basis, typically ranging from \$500 to \$15,000, depending on the specific arrangement reached with the client.

We may request a retainer upon completion of our initial fact-finding session with the client; however, advance payment will never exceed \$1,200 for work that will not be completed within six months. The balance is due upon completion of the plan.

**Financial Planning Fee Offset:** Bates Financial Advisors, Inc. reserves the discretion to reduce or waive the hourly fee and/or the minimum fixed fee if a financial planning client chooses to engage us for our Investment Portfolio Management Services.

The client may be billed quarterly in advance based on our total estimated Financial Planning fees, and may be billed quarterly in arrears based on actual hours accrued.

## **CONSULTING SERVICES FEES**

Bates Financial Advisors, Inc.'s Consulting Services fee will be determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client.

Our Consulting Services fees are calculated and charged on an hourly basis, ranging from \$75 to \$1,000 per hour. An estimate for the total hours is determined at the start of the advisory relationship.

Our Consulting Services fees are calculated and charged on a fixed fee basis, typically ranging from \$500 to \$15,000, subject to the specific arrangement reached with the client.

The client may be billed quarterly in advance based on our estimated Consulting Services fees, and may be billed quarterly in arrears based on actual hours accrued.

Management personnel and other related persons of our firm are licensed as registered representatives of a broker-dealer and/or licensed as insurance agents or brokers. In their separate capacity(ies), these individuals are able to implement investment recommendations for advisory clients for separate and typical compensation (i.e., commissions, 12b-1 fees or other sales-related forms of compensation). This presents a conflict of interest to the extent that these individuals recommend that a client invest in a security which results in a commission being paid to the individuals. Clients are not under any obligation to engage these individuals when considering implementation of advisory recommendations. The implementation of any or all recommendations is solely at the discretion of the client.

## **GENERAL INFORMATION**

**Termination of the Advisory Relationship:** A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days written notice. As disclosed above, certain fees are paid in advance of services provided. Upon termination of any account, any prepaid, unearned fees will be promptly refunded. In calculating a client's reimbursement of fees, we will pro rate the reimbursement according to the number of days remaining in the billing period.

**Mutual Fund Fees:** All fees paid to Bates Financial Advisors, Inc. for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

Management personnel and other related persons of our firm are also appointed as agents for life insurance companies. In their separate capacity(ies), these individuals are able to implement investment recommendations for advisory clients for separate and typical compensation (i.e., commissions, 12b-1 fees or other sales-related forms of compensation). This presents a conflict of interest to the extent that these individuals recommend that a client invest in a security which results in a commission being paid to the individuals. Clients are not under any obligation to engage these individuals when considering implementation of advisory recommendations. The implementation of any or all recommendations is solely at the discretion of the client.

Persons providing investment advice on behalf of our firm are registered representatives with Bates Securities, Inc., a securities broker-dealer, and a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. In their capacity as registered representatives, these persons will receive commission-based compensation in connection with the purchase and sale of securities or other investment products, including asset-based sales charges, service fees or 12b-1 fees, or holding, of mutual funds for the sale of investment company products. Compensation earned by these persons in their capacities as registered representatives is separate and in addition to our advisory fees. This practice presents a conflict of interest because persons providing investment advice to advisory clients on behalf of our firm who are registered representatives have an incentive to recommend investment products based on the compensation received effect securities transactions for the purpose of generating commissions rather than solely based on your needs. Persons providing investment advice to advisory clients on behalf of our firm can select or recommend, and in many instances will select or recommend, mutual fund investments in share classes that pay 12b-1 fees when clients are eligible to purchase share classes of the same funds that do not pay such fees and are less expensive. This presents a conflict of interest. You are under no obligation, contractually or otherwise, to purchase securities products through any person affiliated with our firm who receives compensation described above.

**Additional Fees and Expenses:** In addition to our advisory fees, clients are also responsible for the fees and expenses charged by custodians and imposed by broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer with which an independent investment manager effects transactions for the client's account(s). Please refer to Item 12 of this Form ADV for additional information.

**Grandfathering of Minimum Account Requirements:** Pre-existing advisory clients are subject to Bates Financial Advisors, Inc.'s minimum account requirements and advisory fees in effect at the time the client entered into the advisory relationship. Therefore, our firm's minimum account requirements will differ among clients.

**ERISA Accounts:** Bates Financial Advisors, Inc. is deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts (IRAs) pursuant to the Employee Retirement Income and Securities Act ("ERISA"). As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, Bates Financial Advisors, Inc. may only charge fees for investment advice about products for which our firm and/or our related persons do not receive any commissions or 12b-1 fees, or conversely, investment advice about products for which our firm and/or our related persons receive commissions or 12b-1 fees, however, only when such fees are used to offset Bates Financial Advisors, Inc.'s advisory fees.

**Advisory Fees in General:** Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees.

**Limited Prepayment of Fees:** Under no circumstances do we require or solicit payment of fees in excess of \$1200 more than six months in advance of services rendered.

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

Bates Financial Advisors, Inc. does not charge performance-based fees.

If we had clients who paid performance-based fees, we would have an incentive to favor such accounts because compensation we receive from these clients is more directly tied to the performance of their accounts.

## **Item 7 Types of Clients**

Bates Financial Advisors, Inc. provides advisory services to the following types of clients:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Pension and profit sharing plans (other than plan participants)
- Charitable organizations
- Corporations or other businesses not listed above
- State or municipal government entities

As previously disclosed in Item 5, our firm has established certain minimum account requirements both initially and to maintain an account, based on the nature of the service(s) being provided. For a more detailed understanding of those requirements, please review the disclosures provided in each applicable service.

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

### **METHODS OF ANALYSIS**

We use the following methods of analysis in formulating our investment advice and/or managing client assets:

**Asset Allocation.** We attempt to identify an appropriate ratio of securities, fixed income, and cash suitable to the client's investment goals and risk tolerance.

A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals.

***Mutual Fund and/or ETF Analysis.*** We look at the experience and track record of the manager of the mutual fund or ETF in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We also look at the underlying assets in a mutual fund or ETF in an attempt to determine if there is significant overlap in the underlying investments held in another fund(s) in the client's portfolio. We also monitor the funds or ETFs in an attempt to determine if they are continuing to follow their stated investment strategy.

A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the holding(s) less suitable for the client's portfolio.

***Risks for all forms of analysis.*** Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

## **INVESTMENT STRATEGIES**

We use the following strategy(ies) in managing client accounts, provided that such strategy(ies) are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

***Long-term purchases.*** We purchase investments with the idea of holding them in the client's account for a year or longer. Typically we employ this strategy when:

we believe the investments to be currently undervalued, and/or  
we want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that by holding the investment for this length of time, we may not take advantages of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

***Short-term purchases.*** When utilizing this strategy, we purchase investments with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the investments we purchase.

A short-term purchase strategy poses risks should the anticipated price swing not materialize; we are then left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss.

In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

## **RISK OF LOSS**

We do not guarantee that any particular portfolio of investments will result in a positive return to client. All investments involve risk. Client acknowledges and agrees that client's investments could lose some or all of their value. Past performance of a particular investment is no guarantee of future performance.

## **Item 9 Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

Our firm and our management personnel have no reportable disciplinary events to disclose.

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

Management personnel of Bates Financial Advisors, Inc. are separately licensed as registered representatives of Bates Securities, Inc., an affiliated broker-dealer. These individuals, in their separate capacity, can effect securities transactions for which they will receive separate, yet customary compensation.

While Bates Financial Advisors, Inc. and these individuals endeavor at all times to put the interest of the clients first as part of our fiduciary duty, clients should be aware that the receipt of additional compensation itself creates a conflict of interest, and may affect the judgment of these individuals when making recommendations.

George D. Bates, a member of our firm's management, is an attorney licensed to practice law in the state of Illinois. However, he does not currently provide direct legal services to any client in that capacity and will not act in this capacity for any advisory client of Bates Financial Advisors, Inc. unless separately agreed to in writing between Mr. Bates and the client.

Management personnel of our firm, in their individual capacities, are agents for various insurance companies. As such, these individuals are able to receive separate, yet customary commission compensation resulting from implementing product transactions on behalf of advisory clients. Clients, however, are not under any obligation to engage these individuals when considering implementation of advisory recommendations. The implementation of any or all recommendations is solely at the discretion of the client.

Bates Financial Advisors, Inc. may refer clients to Rock Bank and Trust, a banking institution, to act as trustee for certain accounts. This creates a conflict of interest due to Bates Financial Advisors, Inc. and Rockford Bank and Trust being under common control. Clients are in no way obligated to use Rockford Bank and Trust for these trustee services.

Clients should be aware that the receipt of additional compensation by Bates Financial Advisors, Inc. and its management persons or employees creates a conflict of interest that may impair the objectivity of our firm and these individuals when making advisory recommendations. Bates Financial Advisors, Inc. endeavors at all times to put the interest of its clients first as part of our fiduciary duty as a registered investment adviser; we take the following steps to address this conflict:

- we disclose to clients the existence of all material conflicts of interest, including the potential for our firm and our employees to earn compensation from advisory clients in addition to our firm's advisory fees;
- we disclose to clients that they are not obligated to purchase recommended investment products from our employees or affiliated companies;
- we garner relevant client background information, including the client's financial goals, objectives and risk tolerance;
- our firm's management conducts regular reviews of each client account to verify that all recommendations made to a client are suitable to the client's needs and circumstances;
- we require that our employees seek prior approval of any outside employment activity so that we may ensure that any conflicts of interests in such activities are properly addressed;
- we periodically monitor these outside employment activities to verify that any conflicts of interest continue to be properly addressed by our firm; and
- we educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

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

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

Bates Financial Advisors, Inc. and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions as well as initial and annual securities holdings that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code also provides for oversight, enforcement and recordkeeping provisions.

Bates Financial Advisors, Inc.'s Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by email sent to [info@batesfinancialadvisors.com](mailto:info@batesfinancialadvisors.com), or by calling us at 815332-4020.

Bates Financial Advisors, Inc. and individuals associated with our firm are prohibited from engaging in principal transaction and agency cross transactions.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with making decisions in the best interest of advisory clients and implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and/or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client.

It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account, thereby preventing such employee(s) from benefiting from transactions placed on behalf of advisory accounts.

We may aggregate our employee trades with client transactions where possible and when compliant with our duty to seek best execution for our clients. In these instances, participating clients will receive an average share price and transaction costs will be shared equally and on a pro-rata basis. In the instances where there is a partial fill of a particular batched order, we will allocate all purchases pro-rata, with each account paying the average price. Our employee accounts will be included in the pro-rata allocation.

As these situations represent actual or potential conflicts of interest to our clients, we have established the following policies and procedures for implementing our firm's Code of Ethics, to ensure our firm complies with its regulatory obligations and provides our clients and potential clients with full and fair disclosure of such conflicts of interest:

1. No principal or employee of our firm may put his or her own interest above the interest of an advisory client.
2. No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is a result of information received as a result of his or her employment unless the information is also available to the investing public.
3. It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account. This prevents such employees from benefiting from transactions placed on behalf of advisory accounts.
4. Our firm requires prior approval for any IPO or private placement investments by related persons of the firm.
5. We maintain a list of all reportable securities holdings for our firm and anyone associated with this advisory practice that has access to advisory recommendations ("access person"). These holdings are reviewed on a regular basis by our firm's Chief Compliance Officer or his/her designee.
6. We have established procedures for the maintenance of all required books and records.
7. All clients are fully informed that related persons may receive separate commission compensation when effecting transactions during the implementation process.
8. Clients can decline to implement any advice rendered, except in situations where our firm is granted discretionary authority.
9. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
10. We require delivery and acknowledgement of the Code of Ethics by each supervised person of our firm.
11. We have established policies requiring the reporting of Code of Ethics violations to our senior management.
12. Any individual who violates any of the above restrictions may be subject to termination.

As disclosed previously in Item 10, related persons of our firm are separately registered as securities representatives of a broker-dealer, and/or licensed as an insurance agent/broker of various insurance companies. Please refer to Item 10 for a detailed explanation of these relationships and important conflict of interest disclosures.

## Item 12 Brokerage Practices

Bates Financial Advisors, Inc. (BFAI) requires that it be provided with written authority to determine the broker-dealer to use for client transactions. BFAI will take into consideration client requests/preferences for specific broker-dealers. Absent BFAI's acquiescing to client's preferential request or other beneficial circumstances, as determined by BFAI, BFAI will select Bates Securities, Inc. (BSI) as the broker-dealer of record. Client should understand that not all financial advisory firms require use of a particular broker-dealer. BFAI reserves the right to decline acceptance of any client account for which the client demands the use of a broker other than BSI, if BFAI believes that this choice would hinder our fiduciary duty to the client and/or our ability to service the account.

Bates Securities, Inc. is an affiliate of BFAI. Client should be aware that a conflict of interest may arise through this affiliation. However, BFAI has evaluated this conflict and believes that BSI will provide clients with a blend of execution services, commission costs and professionalism that will assist BFAI in meeting its fiduciary obligations to the client.

Client should note that regardless of the broker-dealer selected, BFAI will not have authority to negotiate commissions or to necessarily obtain volume discounts, and best execution may not be achieved. In addition, a disparity in commission charges may exist between the commissions charged to the client and those charged to other clients (who may direct the use of a different broker).

For clients in need of brokerage or custodial services, and depending on client circumstances and needs, BFAI may use one of several brokers (including, but not limited to, Southwest Securities, Fidelity, Schwab, Pershing, and TD Ameritrade) provided that the broker-dealer will provide services consistent with BFAI's fiduciary duty to the client. Clients should independently evaluate any proposed broker-dealer before opening an account. In selecting a broker-dealer of record for the client, BFAI will consider the following: the broker-dealer's ability to provide professional services, BFAI's experience with the broker-dealer, the broker-dealer's reputation, the broker-dealer's quality of execution of services, and the costs of such services, among other factors.

As a matter of policy and practice, BFAI does not generally block client trades and, therefore, implements client transactions separately for each account. Consequently, certain client trades may be executed before others, at a different price and/or commission rate. Additionally, clients may not receive volume discounts available to advisers who block client trades.

## Item 13 Review of Accounts

### INVESTMENT PORTFOLIO MANAGEMENT SERVICES

**Reviews:** While the underlying securities within Investment Portfolio Management Services accounts are continually monitored, these accounts are reviewed at least annually. Accounts are reviewed in the context of each client's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

These accounts are reviewed by the Investment Adviser Representative assigned to the client account(s).

**Reports:** In addition to the investment statements and confirmations of transactions that Investment Portfolio Management Services clients receive from their broker-dealer, Bates Financial Advisors, Inc. will provide annual (or as frequently as needed (i.e., quarterly) reports summarizing account performance, balances and holdings.

## **FINANCIAL PLANNING SERVICES**

**Reviews:** While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Financial Planning clients unless otherwise contracted for.

**Reports:** Financial Planning clients will receive a completed financial plan. Additional reports will not typically be provided unless otherwise contracted for.

## **CONSULTING SERVICES**

**Reviews:** While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Consulting Services clients unless otherwise contracted for. Such reviews will be conducted by the client's account representative.

**Reports:** These client accounts will receive reports as contracted for at the inception of the advisory engagement.

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

It is Bates Financial Advisors, Inc.'s policy not to engage solicitors or to pay related or nonrelated persons for referring potential clients to our firm.

We may receive compensation from bank relationships for marketing.

## **Item 15 Custody**

We previously disclosed in Item 5 of this Brochure that our firm directly debits advisory fees from client accounts.

As part of this billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period.

Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement.

Currently, our firm does not have actual or constructive custody of client accounts. Rockford Bank and Trust, a related person of Bates Financial Advisors, Inc., does act as trustee for some of the firm's client accounts. As stated in Item 10, this presents a conflict of interest because Bates Financial Advisors, Inc. and Rockford Bank and Trust are under common control. Clients are in no way obligated to use Rockford Bank and Trust for trustee services.

## **Item 16 Investment Discretion**

Clients may hire us to provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client:

- Determine the security to buy or sell; and
- Determine the amount of the security to buy or sell;

Clients give us discretionary authority when they sign a limited trading authorization with our firm, and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions.

## **Item 17 Voting Client Securities**

As a matter of firm policy, we do not vote proxies on behalf of clients. Therefore, although our firm may provide investment advisory services relative to client investment assets, clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially 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 are responsible for instructing each custodian of the assets to forward, to the client, copies of all proxies and shareholder communications relating to the client's investment assets.

We do not offer any consulting assistance regarding proxy issues to clients.

## **Item 18 Financial Information**

Bates Financial Advisors, Inc. has no additional financial circumstances to report.

Under no circumstances do we require or solicit payment of fees in excess of \$1,200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

Bates Financial Advisors, Inc. has not been the subject of a bankruptcy petition at any time during the past ten years.