

# PETSO FINANCIAL CONSULTANTS LLC

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March 25, 2024

This document (“Brochure”) provides information about the qualifications and business practices of Petso Financial Consultants LLC. If you have any questions about the contents of this Brochure, you may contact us at (208) 853-2000 or [jstone@petsofinancial.net](mailto:jstone@petsofinancial.net) to obtain answers and additional information. Petso Financial Consultants LLC is an investment adviser registered with the United States Securities and Exchange Commission (“SEC”). Registration of an investment adviser does not imply any level of skill or training. The information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

Additional information about Petso Financial Consultants LLC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number Petso Financial Consultants LLC is 282032.

## Item 2 – Material Changes

Since our Brochure dated March 8, 2023, we have made the following material changes:

- Item 4 was amended to disclose that our investment approach uses broadly diversified portfolios of mutual funds, individual equities (e.g., stocks), exchange traded funds (“ETFs”), structured notes, individual bonds, and when suitable and appropriate to fulfill Client investing needs, third-party asset managers and sub-advisers. We also expanded our disclosure of our services, including, but not limited to, a description of our financial planning and consulting services.
- Item 5 was amended to disclose that you may incur fees charged by third-party asset managers or sub-advisers engaged by Petso Financial. We also included a description of our financial planning and consulting fees and billing methods.
- We have updated Item 7 to disclose that we now require a minimum account size of \$250,000 to commence a relationship for ongoing account management services.
- We have updated Item 8 of this brochure to expand upon the discussion of our preferred methods of analysis, investment strategies, and their associated risks.
- We have updated Item 12 of this Brochure to reflect that we now recommend that clients engage the custodial and trade execution services of Charles Schwab & Co., Inc. (“Schwab”), rather than TD Ameritrade, Inc. (“TDA”). Prior versions of this Brochure stated that we had recommended TDA for these services. Schwab acquired TDA in 2019 and the two firms combined operations in the third quarter of 2023.
- Item 13 was amended to disclose that account reviews are conducted by firm principal Dave Petso.

We have made other changes throughout this brochure for purposes of clarifying the nature of our services and to enhance the overall readability and transparency of the disclosures contained herein. These changes are not material.

We will update this brochure and summarize in this Item 2 (or a separate standalone summary of material changes) the occurrence of any material changes with respect to our business practices in accordance with applicable law. All current clients will receive a Summary of Material Changes to this and subsequent Brochures within 120 days of the close of our fiscal year (i.e., December 31) and certain additional updates regarding material changes concerning our firm and our business practices as they may occur. Updated information concerning these changes will be provided to you free of charge. A Summary of Material Changes is also included within our brochure found on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can obtain additional information about our firm by searching for us on the foregoing website by our firm name or by our unique IARD/CRD number (282032). You may request a copy of this Brochure at any time by contacting our Chief Compliance Officer, Jennifer Stone, by phone at (208) 853-2000 or by e-mail to [jstone@petsofinancial.net](mailto:jstone@petsofinancial.net). Our Brochure will be provided to you free of charge.

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## Item 4 – Advisory Business

**A About Us.** Petso Financial Consultants LLC (“Petso Financial” “we,” “our,” “firm,” and “us”) is an investment advisory firm formed on February 28, 2001, and located in Boise, Idaho. We are registered with the Securities and Exchange Commission (“SEC”) and we provide investment management, financial planning and income in retirement planning to individual and corporate clients. The sole owner of Petso Financial is David S. Petso.

Our investment advisory services to you (“you,” “your,” and “client”) are driven by and coordinated with each client’s individual financial goals. Our approach uses broadly diversified portfolios of mutual funds, individual equities (e.g., stocks), exchange traded funds (“ETFs”), structured notes, individual bonds, and when suitable and appropriate to fulfill Client investing needs, third-party asset managers and sub-advisers. Our strategies focus on long-term results based on lowest possible level of risk to obtain highest reasonable returns. It is our philosophy that being financially secure takes time and patience. We do not believe in taking the short-term view of your financial picture. We follow strict fiduciary standards, asking ourselves “knowing what we know about the markets and you, what would we do in your financial situation”. Our investment advice is independent and beholden to no investment company or mutual fund. Our clients’ interests are first and foremost in our minds.

**B, C Our Advisory Services.** We help clients coordinate and prioritize their financial lives with all aspects of their life goals. For many clients, this involves close coordination of business, retirement, and personal assets. Client input and involvement is critical to our customized approach to investment management. We spend many meetings with our clients discussing short-, mid- and long-term objectives prior to establishing an investment policy. These discussions will not only involve questions of risk and income but also key factors such as taxes, family circumstances, and inheritance objectives. Many clients have sensitive estate planning needs which are to be addressed through their investment plans. We require ongoing conversations with clients following the implementation of investment strategies. We meet with our clients to review progress, understand changes in the client’s financial circumstances and needs, and to address needed changes due to market movement.

You will be required to grant Petso Financial discretionary authority to implement our investment recommendations directly within your designated investment account(s) without obtaining your consent for each specific transaction, including, but not limited to, the securities bought or sold, the amount of securities bought or sold, and the use of third-party asset managers and sub-advisers. This authority is granted to us in a written advisory agreement you will be required to enter with Petso Financial at the inception of our advisory relationship. The only restrictions on our discretionary authority are those set by the client on a case-by-case basis. Discretionary authority allows us to act on your behalf in most matters necessary or incidental to the handling of your account, including monitoring certain assets, without your prior approval.

Advice and services are tailored to your stated objectives. We will create an investment policy statement (“IPS”) (or similar document) for you summarizing your unique investment objectives, risk tolerance, time horizon, and projected future needs. The IPS guides us in objectively and suitably managing your investment accounts through our discretionary authority. It also provides us with a means by which to evaluate our results. The statement is

reviewed at least annually and updated as necessary as a part of our ongoing review process. We recognize that the IPS sets the tone for our investment work and that many clients may have objectives relating to tax and inheritance which are dealt with and recognized/discussed in other planning documents prepared by us or key, outside, legal and accounting professionals.

As described above, typical client portfolios are constructed using mutual funds, individual equities (e.g., stocks), ETFs, structured notes, individual bonds, third-party asset managers and sub-advisers to manage client portfolios. As active investors, we are systematic and persistent in searching for asset classes that are selling at a considerable discount to their fair value. Likewise, we apply our extensive experience in identifying mutual fund managers to select only those who we are highly confident will deliver superior long-term performance. We believe that intensive research and a disciplined process are critical to investment success. In-depth, fundamental research and careful reasoning underlie every investment decision we make.

**Financial Planning and Consulting Services.** Petso Financial offers a financial planning and consulting services as follows:

- Developing a Comprehensive Written Financial Plan
  - Retirement Planning
  - Insurance Analysis
  - Tax Return Review
  - Investment Account Analysis
  - Estate Funding
- 401K Rebalance
- Budgeting

While each of these services is available on a standalone basis, certain financial planning and consulting services may also be rendered in conjunction with a comprehensive investment management engagement. We will consult with you to gain an understanding of your financial objectives and needs and provide you with our recommendations relative to the areas and topics of financial concern on which you desire to obtain our advice. Our advice may be presented in the form of a written financial plan, a shorter report or checklist, or through informal discussions with you, as agreed within an engagement agreement executed with the client.

In performing these services, Petso Financial is not required to verify any information received from the client or from the client's other professionals (e.g., attorneys, accountants, etc.) and is expressly authorized to rely on such information. We will not provide you with any legal or tax advice of any kind, and advise you to seek the advice of your legal and tax advisors regarding these matters. Clients retain absolute discretion to accept or reject any of Petso Financial's recommendations under this service, in whole or in part. Clients are under no obligation to act upon any of the recommendations made by Petso Financial under a financial planning or consulting engagement. The client is responsible to promptly notify the firm of any change in their financial situation or investment objectives for the purpose of reviewing, evaluating or revising Petso Financial's recommendations and/or services.

As part of these services, Petso Financial may recommend that clients engage the firm, its representatives (in their individual capacities as insurance agents and/or registered representatives of a broker-dealer), and/or other professionals to implement its financial planning and consulting recommendations. Clients are advised that a conflict of interest exists for the firm to recommend that clients engage Petso Financial or its affiliates to provide (or continue to provide) additional services for compensation, including investment management services. Clients are never obligated to engage Petso Financial, its representatives, or any other recommended service providers for any implementation services.

**D Wrap Fee Programs.** We do not participate in, sponsor, or recommend any wrap-fee programs to clients.

**E Our Assets Under Management.** We manage \$1,192,508,634 of client assets on a discretionary basis and \$0 of client assets on a non-discretionary basis. This foregoing amounts were calculated as of January 25, 2024.

### Item 5 – Fees and Compensation

**A Our Advisory Fees.** Petso Financial generally charges its clients an annual management fee calculated as a percentage of the Value of the client’s account(s) under management. These fees are typically 1.00% on accounts up to \$250,000, 0.90% from \$250,001 to \$500,000, 0.80% from \$500,001 to \$1,000,000, 0.70% from \$1,000,001 to \$2,000,000, and 0.60% or less on assets over \$2,000,000. Advisory fees are negotiable solely at Petso Financial’s discretion. The maximum allowable fee that can be charged may not exceed 2.25% of assets under management on an annual basis.

**Our Financial Planning and Consulting Fees.** Petso Financial charges an hourly fee, as set forth below, for financial planning and consulting services under a standalone engagement. Fees are negotiable. For a Comprehensive Written Financial Plan and other hourly services, the amount of time devoted to each project is dependent on the scope and complexity of the services and the professional rendering the financial planning and/or consulting services.

- Developing a Comprehensive Written Financial Plan \$500/hour
  - Retirement Planning
  - Insurance Analysis
  - Tax Return Review
  - Investment Account Analysis
  - Estate Funding
- 401(k) Rebalance \$150/hour
- Budgeting \$175/hour

If the client engages the firm for additional investment advisory services, we may offset all or a portion of the fees for those services based upon the amount paid for the financial planning and/or consulting services.

The terms and conditions of the financial planning and/or consulting engagement are set forth in the client's engagement agreement and Petso Financial typically bills the client upon completion of the agreed-upon service(s).

### **IRA Rollover Considerations**

As part of our investment advisory services to you, we may recommend that you roll assets from your employer's retirement plan, such as a 401(k), 457, or ERISA 403(b) account (collectively, a "Plan Account"), to an individual retirement account, such as a SIMPLE IRA, SEP IRA, Traditional IRA, or Roth IRA (collectively, an "IRA Account") that we will manage on your behalf. We may also recommend rollovers from IRA Accounts to Plan Accounts, from Plan Accounts to Plan Accounts, and from IRA Accounts to IRA Accounts. When we provide any of the foregoing rollover recommendations we are acting as fiduciaries within the meaning of Title I of the Employee Retirement Income Security Act ("ERISA") and/or the Internal Revenue Code ("IRC"), as applicable, which are laws governing retirement accounts.

If you elect to roll the assets to an IRA that is subject to our management, we will charge you an asset-based fee as set forth in the advisory agreement you executed with our firm. This creates a conflict of interest because it creates a financial incentive for our firm to recommend the rollover to you (*i.e.*, receipt of additional fee-based compensation). You are under no obligation, contractually or otherwise, to complete the rollover. Moreover, if you do complete the rollover, you are under no obligation to have the assets in an IRA managed by our firm. Due to the foregoing conflict of interest, when we make rollover recommendations, we operate under a special rule that requires us to act in your best interests and not put our interests ahead of yours.

Under this special rule's provisions, we must:

- meet a professional standard of care when making investment recommendations (give prudent advice);
- never put our financial interests ahead of yours when making recommendations (give loyal advice);
- avoid misleading statements about conflicts of interest, fees, and investments;
- follow policies and procedures designed to ensure that we give advice that is in your best interests;
- charge no more than a reasonable fee for our services; and
- give you basic information about conflicts of interest.

Many employers permit former employees to keep their retirement assets in their company plan. Also, current employees can sometimes move assets out of their company plan before they retire or change jobs. In determining whether to complete the rollover to an IRA, and to the extent the following options are available, you should consider the costs and benefits of a rollover.

Note that an employee will typically have four options in this situation:

1. leaving the funds in your employer's (former employer's) plan;
2. moving the funds to a new employer's retirement plan;

3. cashing out and taking a taxable distribution from the plan; or
4. rolling the funds into an IRA rollover account.

Each of these options has positives and negatives. Because of that, along with the importance of understanding the differences between these types of accounts, we will provide you with a written explanation of the advantages and disadvantages of both account types and the basis for our belief that the rollover transaction we recommend is in your best interests.

As an alternative to providing you with a rollover recommendation, we may instead take an entirely educational approach in accordance with the U.S. Department of Labor's Interpretive Bulletin 96-1. Under this approach, our role will be limited only to providing you with general educational materials regarding the pros and cons of rollover transactions. We will make no recommendation to you regarding the prospective rollover of your assets and you are advised to speak with your trusted tax and legal advisors with respect to rollover decisions. As part of this educational approach, we may provide you with materials discussing some or all of the following topics: the general pros and cons of rollover transactions; the benefits of retirement plan participation; the impact of pre-retirement withdrawals on retirement income; the investment options available inside your Plan Account; and high level discussion of general investment concepts (*e.g.*, risk versus return, the benefits of diversification and asset allocation, historical returns of certain asset classes, etc.). We may also provide you with questionnaires and/or interactive investment materials that may provide a means for you to independently determine your future retirement income needs and to assess the impact of different asset allocations on your retirement income. You will make the final rollover decision.

**B Direct Fee Deduction and Other Fee Related Policies and Procedures.** Annual advisory fees are payable in four quarterly installments in advance of each quarter. The advisory fee will be equal to the respective percentage per annum based on the market value of your account(s) at the end of the previous quarter. Petso Financial will bill you an amount equal to one-quarter of the calculated annual fee during each billing period. Any partial quarters are pro-rated based on the number of days in the quarter that Petso Financial provided the client services.

We will deduct our quarterly advisory fee directly from your account held at the qualified custodian of your assets. We will obtain your written authority for direct fee deduction in a written investment advisory agreement you will be required to enter with Petso Financial at the inception of our advisory relationship. The custodian of your account will independently send you an account statement at least quarterly identifying the amount of funds and each security in your account at the end of the period and setting forth all transactions in your account during the period, including the amount of any advisory fees paid directly to us. The custodian will not verify the accuracy of our fee calculations. Therefore, we encourage you to review the custodian's account statements carefully upon receipt. If you believe our advisory fees have been miscalculated or if you have other questions or concerns regarding your account, you should contact us immediately at the phone number listed on the cover page of this Brochure.

For tax efficiency and other reasons, Petso Financial may suggest that advisory fees for all accounts managed for you be debited from a single client account. The debiting of a single client account has no effect on the total advisory fees charged by Petso Financial.



- C Additional Fees and Expenses.** In addition to fees paid to Petso Financial, you will separately incur all usual customary transaction-based fees (brokerage fees and commissions), custodial charges, wire transfer fees, and other fees and taxes associated with activity and holdings in your account in accordance with the terms contained in the account opening documentation of your custodian. You will also pay your proportionate share of all fund level internal costs and fees charged in connection with the purchase and sale of any mutual funds and ETFs in your account (e.g., mutual fund and ETF expense ratios). Petso Financial does not receive any portion of the foregoing additional fees and costs.. You (may/will) also incur fees charged by third-party asset managers and sub-advisers engaged by Petso Financial to assist with the management of their accounts.
- D Termination of Our Services.** Either party may terminate an investment advisory contract, financial planning or consulting agreement at any time by sending a written communication to the other party. Petso Financial’s advisory fee, financial planning or consulting fee will cease upon our receipt of notice of termination from you and Petso Financial will bill you for that portion of the quarter already elapsed or work already completed. Any unearned and pre-paid fees will be refunded to you.
- E Sale of Securities and Insurance Products.** Certain representatives of Petso Financial are registered representatives of Mutual Securities, Inc. (“Mutual Securities”). Mutual Securities is an SEC registered broker-dealer and member of the Financial Industry Regulatory Authority (“FINRA”) and the Securities Investor Protection Corporation (“SIPC”). They are not affiliated with Petso Financial. Certain representatives of Petso Financial are also licensed to sell insurance in one or more states, either through a licensed general insurance agency or as direct agent representative of a specific insurance company or companies.

Securities and insurance related business is transacted with advisory clients, and representatives may receive commissions from securities and insurance products sold to clients. Clients are advised that the fees paid to Petso Financial for investment advisory services are separate and distinct from the commissions earned by any representative of our firm in connection with the sale of any insurance or securities products to client. If requested by a client, we will disclose the amount of commission expected to be paid.

The receipt of commissions by representatives associated with the firm presents a conflict of interest. As fiduciaries we must act primarily for the benefit of investment advisory clients. As such, we will only transact insurance or securities related business with clients when fully disclosed, suitable, and appropriate. Further, we must determine in good faith that any commissions paid to our representatives are appropriate. Clients are informed that they are under no obligation to purchase securities or insurance products or services from any individual associated with Petso Financial. Clients may use any insurance or brokerage firm or agent they choose.

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

Petso Financial does not charge any performance-based fees for its services or provide side-by-side management of accounts.

## Item 7 – Types of Clients

We provide investment advice to individuals, high net worth individuals, corporations, trusts, foundations, and other charitable entities. We require a minimum portfolio size of \$250,000 to commence a relationship for ongoing management services, negotiable solely at Petso Financial's discretion. Petso Financial will consider prospective clients based on their rapport with our investment advisor representatives, a match in investment philosophy, and overall fit between the prospective client's needs and the firm's services.

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

**A Our Methods of Analysis and Investment Strategies.** We believe strongly in long term holdings. As investors are more and more driven to short term decisions we grow even more confident that a long term outlook is critical to investment success. As primarily contrarian and value investors, we believe in tactical allocation and can spend some time out of sync with current market trends. This can require patience on our part as well as on the part of our clients. Given that market conditions favor different styles at different times, we have found that an allocation to growth/momentum may reduce volatility and potentially increase returns. We are constantly looking for investments that are not correlated to each other or any particular index. To accomplish this, we may from time-to-time use alternative investments, real estate and other non-traditional investments in client accounts.

We may use some or all of the following *methods of analysis* in providing investment advice to you:

*Fundamental Analysis:* In using fundamental analysis, we attempt to determine the intrinsic value of target securities through a review of, among other things, company specific financial disclosures, the strength and track record of management personnel, industry sector financial health, and at a macro level, the overall direction of the economy at large. We use this information as a basis to determine if such securities are underpriced or overpriced relative to current market prices and then to make a buy or sell recommendation to you. Relying on this type of analysis leaves open the risk that the price of a security may move along with the overall direction of the market, irrespective of the economic and financial factors which may have indicated that an opposite movement would have been expected.

*Technical Analysis:* We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement. Technical analysis does not consider the underlying financial condition of a company or security. This presents a risk that a poorly managed or financially unsound company may underperform regardless of overall market movement.

*Cyclical Analysis:* Cyclical analysis is the statistical analysis of specific events occurring at a sufficient number of relatively predictable intervals that they can be forecasted into the future. Cyclical analysis asserts that cyclical forces drive price movements in the financial markets. Risks of this form of analysis include cycle inversion or disappearance. There is no expectation that this type of analysis will pinpoint turning points, instead it is typically used in conjunction with other methods of analysis.

The main sources of information we rely upon when researching and analyzing investments include research materials prepared by others, annual reports, corporate rating services, prospectuses, and company press releases.

We may use some or all of the following investment strategies in providing investment advice to you:

Asset Allocation: Petso Financial will recommend an initial allocation of assets (among stocks, bonds and cash) based on client objectives, time horizon, risk tolerance and, within certain limits, client preferences. The approach favors a wide range of globally diversified assets to assess optimal characteristics of a portfolio for each client's unique financial circumstances.

Asset allocation is an investment strategy that attempts to balance risk versus return by adjusting the percentage of each asset in an investment portfolio according to the investor's risk tolerance, goals, and investment time frame. Asset allocation is based on the principle that different assets perform differently in different market and economic conditions. A fundamental justification for asset allocation is the notion that different asset classes offer returns that are not perfectly correlated, hence diversification reduces the overall risk in terms of the variability of returns for a given level of expected return. Although risk is reduced as long as correlations are not perfect, it is typically forecasted (wholly or in part) based on statistical relationships (like correlation and variance) that existed over some past period. Expectations for return are often derived in the same way. The primary goal of an asset allocation strategy is to create an asset mix that seeks to provide the optimal balance between expected risk and return for a long-term investment horizon.

A risk of asset allocation is that you 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 to meet with your investment goals.

Long-term Purchases: We may take a long term "buy and hold" approach to investing client assets. In this type of investment strategy, we suggest the purchase of securities with the idea of holding them in a portfolio for a year or longer. Typically, we employ this strategy when (1) we believe the securities to be currently undervalued, and/or (2) we want the portfolio to have 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 security for this length of time, we may not take advantage 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 recommendation to sell.

Mutual Fund and ETF Selection and Analysis: We evaluate and select mutual funds and ETFs for your account based on several factors which may include, without limitation, (1) the experience and track record of the underlying portfolio manager(s), (2) the performance of the fund over time and through various market conditions; (3) expected market conditions that might impact the underlying holdings of the fund or applicable market sector; and (4) whether and to what extent the underlying holdings of the fund overlap with other assets held in your account. We

also monitor the fund in an attempt to determine if the fund is continuing to follow its stated investment strategy.

A risk of this form of analysis is that, as in all securities investments, past performance does not guarantee future results. A fund manager's past track record of success cannot be relied upon as a predictor of success in the future. In addition, the underlying holdings of the fund are determined by independent fund managers and may change overtime without advance warning, creating the potential for overlap with other investments held in your account. This increase in the correlation of your holdings will increase the risk of loss where the value of any overlapping holdings should decrease. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund, which could make the holding(s) less suitable for the client's portfolio.

**B Summary of Investment Risks.** We firmly believe that no one can time the market or predict the future. Clients must understand that past performance is not indicative of future results. Therefore, current and prospective clients (including you) should never assume that future performance of any specific investment or investment strategy will be profitable. Investing in any type of security (including stocks, mutual funds, and bonds) involves risk of loss. Further, depending on the different types of investments there may be varying degrees of risk. You need to be prepared to bear investment loss including loss of original principal.

Because of the inherent risk of loss associated with investing, Petso Financial cannot represent, guarantee, or even imply that our services and methods of analysis:

1. can or will predict future results;
2. successfully identify market tops or bottoms; or
3. insulate you from losses due to market corrections or declines. There are certain additional risks associated when investing in securities through an investment management program.

**C Investment Risks Related to Recommended Investments.** While all investing involves risks and losses can and will occur, we generally recommend a broad and diversified allocation of securities and other investments intended to reduce the specific risks associated with a concentrated or undiversified portfolio. Nonetheless, you should consider the following high-level summary of investment risks. This list is not intended to be an exhaustive description of all risks you may encounter in engaging our firm for advisory services. We encourage you to inquire with us frequently about the risks related to any investments in your account.

Risk of Loss: Securities investments are not guaranteed, and you may lose money on your investments. As with any investment advisor that invests in common stocks and other equity securities, our investment recommendations are subject to market risk—the possibility that securities prices will decline over short or extended periods of time. As a result, the value of your account(s) will fluctuate with the market, and you could lose money over short or long periods of time. You should recognize whenever you determine to invest in the securities markets your entire investment is at risk. Clients should not invest money if they are unable to bear the risk of total loss of their investments.

*Economic Risk:* The prevailing economic environment is important to the health of all businesses. Some companies, however, are more sensitive to changes in the domestic or global economy than others. These types of companies are often referred to as cyclical businesses. Countries in which a large portion of businesses are in cyclical industries are thus also very economically sensitive and carry a higher amount of economic risk. If an investment is issued by a party located in a country that experiences wide swings from an economic standpoint or in situations where certain elements of an investment instrument are hinged on dealings in such countries, the investment instrument will generally be subject to a higher level of economic risk.

*Financial Risk:* Financial risk is represented by internal disruptions within an investment or the issuer of an investment that can lead to unfavorable performance of the investment. Examples of financial risk can be found in cases like Enron or many of the “dot com” companies that were caught up in a period of extraordinary market valuations that were not based on solid financial footings of the companies.

*Market Risk:* The value of your portfolio may decrease if the value of an individual company or multiple companies in the portfolio decreases or if our belief about a company’s intrinsic worth is incorrect. Further, regardless of how well individual companies perform, the value of your portfolio could also decrease if there are deteriorating economic or market conditions. It is important to understand that the value of your investment may fall, sometimes sharply, in response to changes in the market, and you could lose money. Investment risks include price risk as may be observed by a drop in a security’s price due to company specific events (*e.g.*, earnings disappointment or downgrade in the rating of a bond) or general market risk (*e.g.*, such as a “bear” market when stock values fall in general). For fixed-income securities, a period of rising interest rates could erode the value of a bond since bond values generally fall as bond yields go up. Past performance is not a guarantee of future returns.

*Interest Rate Risk:* Certain investments involve the payment of a fixed or variable rate of interest to the investment holder. Once an investor has acquired or has acquired the rights to an investment that pays a particular rate (fixed or variable) of interest, changes in overall interest rates in the market will affect the value of the interest-paying investment(s) they hold. In general, changes in prevailing interest rates in the market will have an inverse relationship to the value of existing, interest paying investments. In other words, as interest rates move up, the value of an instrument paying a particular rate (fixed or variable) of interest will go down. The reverse is generally true as well.

*Risks Related to Analysis Methods:* Our analysis of securities relies in part on the assumption that the issuers whose securities we recommend for purchase and sale, 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.

*Securities Transactions at the Direction of Clients:* All assets are held at the custodian in your name and you will typically maintain the concurrent ability to direct transactions within your account. We are not responsible for the consequences of your self-directed investment decisions or the costs and fees they generate within your account.

*Interim Changes in Client Risk Tolerance and Financial Outlook:* The particular investments recommended by our firm are based solely upon the investment objectives and financial circumstances disclosed to us by you. While we strive to meet with clients at regular intervals (at least annually, unless otherwise agreed, either in person, telephonically, or by electronic means) to discuss any changes in the client's financial circumstances, the lack of constant and continuous communication presents a risk insofar as your liquidity, net worth, risk tolerance and/or investment goals could change abruptly, with no advance notice to our firm, resulting in a mis-aligned investment portfolio and the potential for losses or other negative financial consequences.

It is your continuing and exclusive responsibility to give us complete information and to notify us of any changes in your financial circumstances, income level, investment goals or employment status. We encourage you to contact us regularly and promptly to discuss your investment and any changes to your financial circumstances.

## **Item 9 – Disciplinary Information**

Petso Financial is required to disclose all material facts regarding any legal or disciplinary event that would be material to your evaluation of our firm, or the integrity of our management. No principal or person associated with Petso Financial has any information to disclose which is applicable to this Item.

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

**A Broker-Dealer Registration.** Petso Financial is not registered as and does not intend to become registered as a broker-dealer. However, as disclosed in Item 5E of this Brochure, certain representatives of Petso Financial are also licensed as registered representatives with Mutual Securities. In their separate capacity as registered representatives, Petso Financial's representatives will typically receive commissions for the implementation of recommendations for commissionable transactions. Clients are not obligated to implement any recommendation provided by Petso Financial's representatives involving any commissionable security product.

Mutual Securities and Petso Financial are not affiliated. Under no circumstances will a client of Petso Financial be deemed to be a client of Mutual Securities, nor will Mutual Securities assume any liability for the acts or omissions of any of Petso Financial's representatives unless the client has an executed Mutual Securities client Agreement which has been accepted by Mutual Securities and the client's claim is the result of those services agreed to in writing by and between Mutual Securities and the client. Further, Petso Financial acknowledges that it is solely responsible for the securities transactions and advisory activities, and any liability arising out of such activities, of any of its owners, officers, partners, directors, employees, agents, and investment advisor representatives, or persons holding similar status or performing similar functions that do not have appropriate and active securities registrations through Mutual Securities, and/or are not covered by Mutual Securities-approved errors and omissions insurance coverage.

When acting as registered representatives of Mutual Securities, investment recommendations provided by representatives of Petso Financial will be limited to investment products offered through Mutual Securities. Other suitable investment products may be available through other broker/dealers or investment advisors at lower costs. A conflict of interest exists because of the duty to provide unbiased advice to clients and the potential receipt of commissions on transactions effected through Mutual Securities.

- B Futures or Commodities Registration.** Neither Petso Financial, nor any of its associated persons, are registered as or intend to become registered as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of any of the foregoing.
- C Other Material Relationships.** As described in Item 5E of this Brochure, certain representatives of Petso Financial are also licensed as insurance agents in one or more states, either through a licensed general insurance agency or as direct agent representatives of a specific insurance company or companies. The conflicts of interest associated with the above arrangements and how these conflicts are addressed are described in Item 5E. Clients are not obligated to implement any recommendation provided by Petso Financial's representatives involving any commissionable insurance product.
- D Recommendation of Third-Parties.** Except for certain benefits we receive from the broker-dealers we recommend to clients as outlined in Item 12 of this Brochure, we do not receive any additional compensation or benefits, either directly or indirectly, in connection with referrals of our clients to any custodians, attorneys, tax advisors, accountants, or any other third-party. We will only recommend and refer third-party providers to you when we believe such recommendations to be in your best interests. We do not act as a solicitor for any third-parties.

You are never obligated to engage any third-party we recommend to you and do so at your sole discretion and risk.

## **Item 11 – Code of Ethics, Participation or Interest in Client Transaction & Personal Trading**

- A Our Code of Ethics.** Petso Financial has a Code of Ethics which all employees are required to follow. The Code of Ethics outlines our high standard of business conduct, and fiduciary duty to clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts, the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things.

A copy of the code of ethics is available to any client or prospective client upon request by contacting Jennifer Stone at (208) 853-2000 or [jstone@petsofinancial.net](mailto:jstone@petsofinancial.net).

- B,C,D Material or Proprietary Interests in Securities Recommended to Clients.** Our firm and our associated persons do not have any proprietary or material interests in or any role in the management of any companies or investments that we recommend to our clients.

**Personal Trading; Participation or Interest in Client Transactions.** Petso Financial or individuals associated with our firm may buy and sell some of the same securities for their own account that Petso Financial buys and sells for its clients. When appropriate we will purchase or sell securities for clients before purchasing the same for our account or allowing representatives to purchase or sell the same for their own account. In some cases, Petso Financial or its representatives may buy or sell securities for their own account for reasons not related to the strategies adopted for our clients. Our employees are required to follow the Code of Ethics when making trades for their own accounts in securities which are recommended to and/or purchased for clients. The Code of Ethics is designed to assure that the personal securities transactions will not interfere with decisions made in the best interest of advisory clients while at the same time, allowing employees to invest their own accounts.

Petso Financial will disclose to advisory clients any material conflict of interest relating to us, our representatives, or any of our employees which could reasonably be expected to impair the rendering of unbiased and objective advice.

As any advisory situation could present a conflict of interest, we have established the following restrictions to ensure our fiduciary responsibilities:

1. A director, officer, associated person, or employee of Petso Financial shall not buy or sell securities for their personal portfolio where their decision is substantially derived, in whole or in part, by reason of their employment unless the information is also available to the investing public on reasonable inquiry. No associated person of Petso Financial shall prefer his or her own interest to that of the advisory client.
2. Petso Financial maintains a list of all securities holdings for itself and for anyone associated with its advisory practice that has access to advisory recommendations. An appropriate officer of Petso Financial reviews these holdings on a regular basis.
3. Any individual not in observance of the above may be subject to termination.

## **Item 12 – Brokerage Practices**

**A Selection/Recommendation of Broker-Dealers; Best Execution.** Clients maintain the discretion to select the custodian(s) to be used for custody of their assets and for the execution of transactions within their account(s). Clients engage their desired custodian(s) by executing the appropriate account opening documentation of the custodian(s), and in doing so, authorize our firm to direct the execution of transactions for the client's account through such Custodian(s).

As of the date of this Brochure, we typically recommend that clients engage the custodial and trade execution services of Charles Schwab & Co., Inc. (“Schwab”), an independent SEC-registered broker-dealer and Member FINRA/SIPC. Conflicts of interest associated with our recommendation of Schwab to clients are described below as well as in Item 14 of this Brochure. You should consider these conflicts of interest when selecting your custodian.

We are not affiliated with Schwab and they do not monitor or control the activities of our firm or its personnel. Schwab will act solely as a custodian and/or broker-dealer and not as



your investment advisor. They will hold your assets in a brokerage account or accounts and buy and sell securities and execute other transactions when instructed to do so by you or Petso Financial. We do not have the discretion to determine the commission rates at which transactions are to be affected for your account and we may recommend that clients engage different custodians and executing brokers in the future. The commission rates, custodial fees, and other costs Schwab will charge you in connection with acting as the custodian and executing broker for your accounts are set forth in their account opening and other documentation.

In recommending broker-dealers, we have an obligation to seek the “*best execution*” of transactions for client accounts. This duty requires us to seek to execute securities transactions for clients such that the total costs or proceeds in each transaction are the most favorable under the circumstances. The determinative factor in the analysis of best execution is not the lowest possible commission cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of the recommended broker-dealer’s services. Some of the factors we may consider when evaluating a broker-dealer for best execution include, without limitation, the broker-dealer’s execution and custodial capabilities, commission rates, financial responsibility, responsiveness and customer service, research services/ancillary brokerage services provided, and other factors that we consider relevant.

Therefore, we will seek competitive commission rates, but we may not obtain the lowest possible commission rates for specific account transactions. With this in consideration, we will continue to recommend that clients engage Schwab until their services do not result, in our opinion, in the best execution of client transactions.

**Directed Brokerage.** If the client selects a Custodian other than Schwab for custody and execution of transactions (*i.e.*, client directed brokerage), you are advised that we may be unable to seek best execution of your transactions and your commission costs may be higher than those experienced by clients who elect to utilize our recommended custodian. For example, in a directed brokerage account, you may pay higher brokerage commissions and/or receive less favorable prices on the underlying securities purchased or sold for your account because we may not be able to aggregate your order with the orders of other clients. In addition, where you direct brokerage, we may place orders for your transactions after we place transactions for clients using our recommended custodian (*i.e.*, Schwab). We reserve the right to reject your request to use a particular custodian other than Schwab if we determine that such selection would frustrate our ability to manage your account.

**Soft Dollars.** The custodians we recommend to clients may provide us with certain brokerage and research products and services that qualify as “brokerage or research services” under Section 28(e) of the Securities Exchange Act of 1934 (“Exchange Act”). This is commonly referred to as a “*soft dollar*” arrangement. These research products and/or services will assist us in our investment decision making process. Such research generally will be used to service all of our client accounts, but brokerage charges paid by the client may be used to pay for research that is not used in managing that specific client’s account. Your account may pay to a broker-dealer a charge greater than another qualified broker-dealer might charge to affect the same transaction where we determine in good faith that the charge is reasonable in relation to the value of the brokerage and research services received.

**Benefits Received from Schwab.** Schwab Advisor Services™ is Schwab's business serving independent investment advisory firms like Petso Financial. They provide us and our clients with access to institutional brokerage— trading, custody, reporting, and related services— many of which are not typically available to Schwab retail customers. Schwab also makes available to us various support services. Some of those services help us manage or administer our clients' accounts, while others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (we don't have to request them) and at no charge to us as long as our clients collectively maintain a minimum value of assets with Schwab. Below is a more detailed description of Schwab's support services.

*Services That Benefit Clients:* Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which Petso Financial might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit clients and their accounts.

*Services That May Not Directly Benefit Clients:* Schwab also makes available to Petso Financial other products and services that benefit us but may not directly benefit our clients. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that provides access to client account data (such as duplicate trade confirmations and account statements); facilitates trade execution; provides pricing and other market data; facilitates payment of our advisory fees from our clients' accounts; and assists us with back-office functions, recordkeeping, and client reporting.

*Services That Generally Benefit Only Us:* Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include access to educational conferences and events; consulting on technology, compliance, legal, and business needs; access to publications and conferences on practice management and business succession; and access to employee benefits providers, human capital consultants, and insurance providers.

Schwab may provide some of the above services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may discount or waive its fees for some or all of these services. The research and brokerage services provided to Petso Financial by Schwab qualify for the safe harbor exemption defined in Section 28(e) of the Exchange Act.

The aforementioned research and brokerage services are generally used by Petso Financial to manage accounts for which Petso Financial has investment discretion. Without these arrangements, Petso Financial might be compelled to purchase the same or similar services at its own expense. As part of our fiduciary duty to clients, Petso Financial endeavors at all times to put the interests of our clients first. Clients should be aware, however, that the receipt of economic benefits by our firm and/or our related persons creates a conflict of interest and may indirectly influence our recommendation of Schwab to clients. Petso Financial examined this potential conflict of interest in choosing to recommend Schwab and has determined that

the recommendation of Schwab is in the best interests of our clients and satisfies our fiduciary obligations, including our duty to seek best execution.

Schwab does not make client brokerage commissions generated by client transactions available for our firm's use.

Petso Financial does not receive client referrals from Schwab in exchange for directing client transactions through Schwab.

**B Trade Aggregation.** Petso Financial may aggregate client trades. The allocations of a particular security will be determined by Petso Financial before the trade is placed with the broker. When practical, client trades in the same security will be bunched in a single order (a "block" or "aggregate" trade) in an effort to obtain best execution at the best security price available. When employing a block trade:

- Petso Financial will make reasonable efforts to attempt to fill client orders by day-end.
- If the block order is not filled by day-end, Petso Financial will allocate shares executed to underlying accounts on a pro rata basis, adjusted as necessary to keep client transaction costs to a minimum.
- If a block order is filled (full or partial fill) at several prices through multiple trades, an average price and commission will be used for all trades executed.
- All participants receiving securities from the block trade will receive the average price.
- Only trades executed within the block on the single day may be combined for purposes of calculating the average price.

It is expected that this trade aggregation and allocation policy will be applied consistently. However, if application of this policy results in unfair or inequitable treatment to some or all of Petso Financials clients, Petso Financial may deviate from this policy.

### Item 13 – Review of Accounts

- A Account Reviews.** Accounts are typically reviewed by firm principal Dave Petso, or his designee. See Mr. Petso's Form ADV Part 2B, Item 2 for more information about him. The frequency of reviews is determined based on the client's investment objectives. Accounts are generally reviewed quarterly, but in any event, no less than annually.
- B More Frequent Account Reviews.** More frequent reviews may be triggered by a change in your investment objectives; tax considerations; large deposits or withdrawals; large sales or purchases; loss of confidence in corporate management; or, changes in the economic climate.
- C Reporting to Clients.** Investment advisory clients receive standard account statements from the custodian of their accounts on at least a quarterly basis. Petso Financial also provides clients with a verbal report summarizing the account activity generally quarterly, but in any event, no less than annually.

## Item 14 – Client Referrals and Other Compensation

**A Other Compensation.** As discussed in Item 5E of this Brochure, certain representatives of Petso Financial may receive additional compensation as a result of their status as dually registered broker-dealer registered representatives of Mutual Securities or as independent licensed insurance agents. If a client decides to purchase a security or insurance product through any of these associated persons outside of the client’s advisory relationship with Petso Financial, this relationship constitutes a conflict of interest. When this occurs, such compensation will be disclosed to the client upon request for their evaluation. Clients are under no obligation to purchase securities or insurance products from any of our representatives.

As referenced in Item 12 above, Schwab provides services and products to Petso Financial without cost or at a discount that we may use to service some or all of our client accounts. We may enter into similar arrangements with other broker-dealers and custodians in the future. As part of its fiduciary duties to clients, Petso Financial endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by our firm and/or our associated persons in and of itself creates a potential conflict of interest and may indirectly influence our choice to recommend that clients engage Schwab for trade execution and custodial services.

**B No Compensation for Client Referrals.** Except as disclosed above in this Item 14, Petso Financial does not directly or indirectly compensate or receive compensation from any third parties in connection with the advisory services we provide to clients.

## Item 15 – Custody

With the exception of Petso Financial’s ability to directly debit fees from client accounts, and our ability to disburse certain funds pursuant to a Standing Letter of Authorization (each a “SLOA”) executed by a Client, Petso Financial does not otherwise have custody of the funds or securities held in the account(s).

Petso Financial shall have no liability to the client for any loss or other harm to any property in the account, including any harm to any property in the account resulting from the insolvency of the custodian or any acts of the agents or employees of the custodian and whether or not the full amount or such loss is covered by the SIPC or any other insurance which may be carried by the custodian. Clients are advised that the SIPC provides only limited protection for the loss of property held by a custodian.

## Item 16 – Investment Discretion

Petso Financial has ongoing and continuous discretionary authority to execute its investment recommendations for clients in accordance with the IPS (or similar document used to establish each client’s objectives and suitability), developed in consultation with the client, without the client’s prior approval of each specific transaction. Under this discretionary authority, client allows Petso Financial to purchase and sell securities and instruments in their account(s), arrange for delivery and payment in connection with the foregoing, and act on behalf of the client in matters necessary or incidental to the handling of the account, including monitoring certain assets.

## Item 17 – Voting Client Securities

- A No Proxy Voting.** Without exception, we do not vote proxies on behalf of our clients. Clients or their duly authorized representatives are responsible for voting of all proxies.
- B Receipt of Proxies and Other Solicitations.** We do not have authority to vote client securities. Clients will receive proxies and other solicitations directly from the custodian or transfer agent. If any proxy materials are received on behalf of a client, they will be sent directly to the client or a designated representative of the client, who is responsible to vote the proxy.

## Item 18 – Financial Information

- A Financial Condition.** As an advisory firm that maintains discretionary authority for client accounts, Petso Financial is required to disclose any financial condition that is reasonably likely to impair its ability to meet its contractual obligations. We have no such financial circumstances to report.
- B Balance Sheet.** We do not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance from any client. Therefore, we are not required to provide a balance sheet with this Brochure.
- C No Bankruptcy.** Neither Petso Financial, nor any of the principals, have been the subject of a bankruptcy petition at any time in the past.