

## **ADV Part 2**

### **Firm Brochure**

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This brochure provides information about the qualifications and business practices of MICHAEL PACE, CFP®. If you have any questions about the contents of this brochure, please contact Michael by phone or email. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority.

Additional information about MICHAEL PACE, CFP® is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

DATED: January 18, 2018

## **Material Changes**

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### **Annual Update**

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

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### **Material Changes since the Last Update**

The U.S. Securities and Exchange Commission issued a final rule in July 2010 requiring advisers to provide a Firm Brochure in narrative “plain English” format. The new final rule specifies mandatory sections and organization.

# Table of Contents

- Material Changes..... i**
  - Annual Update ..... i
  - Material Changes since the Last Update ..... i
- Advisory Business ..... 1**
  - Firm Description..... 1
  - Principal Owner..... 2
  - Types of Advisory Services..... 2
  - Tailored Relationships ..... 2
  - Types of Agreements..... 2
  - Financial Planning Agreement ..... 2
  - Investment Management Agreement ..... 3
  - Retainer Fee Arrangement ..... 4
  - Limited Investment Management Agreement ..... 4
  - Hourly Planning Engagements ..... 4
  - Asset Management ..... 4
  - Termination of Agreement ..... 5
- Fees and Compensation ..... 5**
  - Description..... 5
  - Fee Billing ..... 5
  - Other Fees..... 6
  - Expense Ratios..... 6
  - Past Due Accounts and Termination of Agreement ..... 6
- Performance-Based Fees ..... 6**
  - Sharing of Capital Gains ..... 6
- Types of Clients..... 7**
  - Description..... 7
  - Account Minimums..... 7
- Methods of Analysis, Investment Strategies and Risk of Loss..... 7**
  - Methods of Analysis..... 7
  - Investment Strategies ..... 7
  - Risk of Loss ..... 7

<b>Disciplinary Information .....</b>	<b>9</b>
Legal and Disciplinary.....	9
<b>Other Financial Industry Activities and Affiliations .....</b>	<b>9</b>
Financial Industry Activities.....	9
Affiliations .....	9
<b>Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....</b>	<b>9</b>
Code of Ethics .....	9
Participation or Interest in Client Transactions.....	9
Personal Trading.....	9
<b>Brokerage Practices.....</b>	<b>10</b>
Selecting Brokerage Firms.....	10
Best Execution .....	10
Soft Dollars .....	10
Order Aggregation .....	10
<b>Review of Accounts .....</b>	<b>10</b>
Periodic Reviews .....	10
Review Triggers.....	10
Regular Reports.....	10
<b>Client Referrals and Other Compensation .....</b>	<b>11</b>
Incoming Referrals.....	11
Referrals Out .....	11
<b>Custody.....</b>	<b>11</b>
Account Statements.....	11
Performance Reports.....	11
Net Worth Statements.....	11
<b>Investment Discretion.....</b>	<b>12</b>
Discretionary Authority for Trading.....	12
Limited Power of Attorney.....	12
<b>Voting Client Securities .....</b>	<b>12</b>
Proxy Votes .....	12

<b>Financial Information .....</b>	<b>12</b>
Financial Condition .....	12
<b>Business Continuity Plan .....</b>	<b>13</b>
General .....	13
Disasters .....	13
Alternate Offices .....	13
Loss of Key Personnel .....	13
<b>Information Security Program.....</b>	<b>13</b>
Information Security .....	13
Privacy Notice .....	14
<b>Brochure Supplement (Part 2B of Form ADV) .....</b>	<b>15</b>
Education and Business Standards .....	15
Professional Certifications .....	15
Michael Pace, CFP®.....	15

## Advisory Business

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### Firm Description

The financial advisory practice of MICHAEL PACE, CFP® was founded in 1988.

MICHAEL PACE, CFP® offers personalized confidential financial planning and investment management to individual clients and families. Advice is offered through consultation with the client and may include: assessing a client's assets and liabilities, income and expenses, risk tolerance, tax exposure, and estate planning needs.

The financial planning process involves a review of a client's personal financial needs and goals for the future, with the objective of creating and implementing a financial plan designed to help each client achieve their financial goals.

MICHAEL PACE, CFP® is strictly a fee-only financial planner and investment manager. He does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. He is not affiliated with entities that sell financial products or securities. No commissions in any form are accepted. No finder's fees are accepted.

Investment advice is offered, with the client making the final decision on investment selection. MICHAEL PACE, CFP® does not act as a custodian of client assets. The client always maintains asset control. MICHAEL PACE, CFP® places trades for clients under a limited power of attorney.

A written evaluation of each client's initial situation is provided to the client, generally in the form of a net worth statement. Periodic reviews may be conducted to communicate reminders of the specific courses of action that need to be taken.

Other professionals (e.g., lawyers, accountants, insurance agents, etc.) may be engaged directly by the client on an as-needed basis. Conflicts of interest will be disclosed to the client in the unlikely event they should occur.

An initial meeting, which may be by telephone, is free of charge and is considered an exploratory interview to determine the extent to which financial planning and investment management may be beneficial to the client.

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**Principal Owner**

Michael Pace is the sole owner of MICHAEL PACE, CFP®.

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**Types of Advisory Services**

MICHAEL PACE, CFP® offers investment supervisory services, also known as asset management services. He offers investment advice through consultations, and on more than an occasional basis, MICHAEL PACE, CFP® offers advice to clients on matters not involving securities, such as education planning matters, taxation issues, and estate planning issues.

As of December 31, 2017, MICHAEL PACE, CFP® manages approximately \$40 million in assets for 31 clients. Approximately \$39.6 million is managed on a discretionary basis, and \$370,000 is managed on a non-discretionary basis.

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**Tailored Relationships**

The goals and objectives for each client are identified in meetings with clients. For Investment Management clients, Investment Policy Statements are created that reflect the stated goals and objective. Clients may impose restrictions on investing in certain securities or types of securities.

Agreements may not be assigned without client consent.

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**Types of Agreements**

The following agreements define the typical client relationships.

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**Financial Planning Agreement**

A financial plan is designed to help the client with all aspects of financial planning without ongoing investment management.

The financial plan may include, but is not limited to: a net worth statement; a cash flow statement (aka, a budget); a review of investment accounts, including reviewing asset allocation and offering repositioning recommendations; strategic tax planning; a review of retirement accounts and plans including recommendations; a review of insurance policies and recommendations for changes, if necessary; one or more retirement scenarios; estate planning review and recommendations; and education planning with funding recommendations.

Detailed investment advice and specific recommendations may be offered as part of a financial plan. Implementation of the recommendations is at the discretion of the client.

The fee for a financial plan is typically estimated based upon the facts known at the start of the engagement. The fee range for a financial plan is usually between \$1,000 and \$2,500. The fee is based upon an hourly billing rate of \$200, and is generally not negotiable.

In the event that the client's financial planning needs are substantially different than understood at the initial meeting(s), more time than initially estimated may be needed to complete the planning process. For example, some clients may wish to evaluate a variety of future scenarios, which takes additional time, and thus may involve more planning time and cost.

After delivery of a financial plan, future face-to-face meetings may be scheduled at the client's preference. Follow up planning is also billed at the rate of \$200 per hour.

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### **Investment Management Agreement**

Some clients may choose to have MICHAEL PACE, CFP® manage their investment assets in order to obtain ongoing advice and life planning. All aspects of the client's financial affairs are generally reviewed. Realistic goals and objectives are set and steps to reach those goals are identified. As goals and objectives change over time, suggestions are made and implemented on an ongoing basis.

The scope of work and fees for an Investment Management Agreement is provided to the client in writing prior to the start of the relationship. An Investment Management Agreement includes: cash flow management; insurance review; investment management (including periodic performance reporting); education planning; retirement planning; estate planning; and tax preparation, as well as the implementation of recommendations within each area.

The investment management fee charged is nominally 1% per year applied against the investment portfolio, and is billed quarterly.

A minimum charge of \$6,000 per year applies (\$1,500 per quarter). The minimum annual fee equates to an investment portfolio of approximately \$600,000.

Current client relationships may exist where the fees are higher or lower than the fee schedule above. The level of annual fees is negotiable.



Although the Investment Management Agreement is an ongoing agreement and constant adjustments are required, the length of service to the client is at the client's discretion. The client or the investment manager may terminate an Agreement at any time by written notice to the other party. At termination, fees will be billed on a pro rata basis for the portion of the quarter completed. The portfolio value at the completion of the prior full billing quarter is used as the basis for the fee computation, adjusted for the number of days during the billing quarter prior to termination.

Income tax preparation work is typically performed as a part of the Investment Management Agreement. Eligible federal and applicable state income tax returns are filed electronically without an additional fee. If income tax preparation work is not performed for an investment management client, the client's investment management fee can be adjusted to reflect income tax preparation costs.

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### **Retainer Fee Arrangement**

In some circumstances, a Retainer Fee arrangement may be used in lieu of fee is based on a percentage of the investable assets. The retainer fee is based on the complexity of a client's specific circumstances and Net Worth, and set at a fixed amount per year. The level of annual fees is negotiable.

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### **Limited Investment Management Agreement**

A Limited Investment Management Agreement may be executed when comprehensive financial planning is not received as part of the relationship. The annual fee for a Limited Investment Management Agreement is negotiable.

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### **Hourly Planning Engagements**

MICHAEL PACE, CFP® offers hourly planning services for clients who wish to receive advice on a limited scope of work. The hourly rate for limited scope engagements is \$200.

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### **Asset Management**

Assets are invested primarily in mutual funds and exchange-traded funds (ETFs). Mutual fund and ETF companies charge each fund shareholder an investment management fee that is disclosed in the fund prospectus. Brokerages may charge a transaction fee for the purchase of some funds.

Stocks and bonds may be purchased or sold through a brokerage account when appropriate. The brokerage firm typically charges a fee for stock and bond trades. MICHAEL PACE, CFP® does not receive any compensation, in any form, from fund companies or brokerage firms.

Investments may also include: equities (stocks), warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities, U.S. government securities, options contracts, futures contracts, real estate investment trusts and interests in partnerships and LLCs.

Initial public offerings (IPOs) are not available through MICHAEL PACE, CFP®.

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### **Termination of Agreement**

A Client may terminate any of the aforementioned agreements at any time by notifying MICHAEL PACE, CFP® in writing and paying the rate for the time spent on the investment advisory engagement prior to notification of termination.

MICHAEL PACE, CFP® may terminate any of the aforementioned agreements at any time by notifying the client in writing.

## **Fees and Compensation**

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### **Description**

MICHAEL PACE, CFP® generally bases his fees on a percentage of assets under management.

Some *Retainer Agreements* may be priced based on the complexity of work, especially when asset management is not the most significant part of the relationship.

Fees for financial plans are derived according to the degree of complexity associated with the client's situation and the amount of time a plan takes to develop.

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### **Fee Billing**

Investment management fees are billed quarterly, in arrears, meaning that clients are invoiced after the three-month billing period has ended. Payment in full is expected upon invoice presentation. Fees are typically deducted from a designated client account to facilitate payment. The client must consent in advance to direct debiting of her/his investment account.

Fees for financial plans or hourly consultations are billed upon completion, with the fee due upon billing.

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### **Other Fees**

Custodians may charge transaction fees on purchases or sales of certain mutual funds and exchange-traded funds. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security.

MICHAEL PACE, CFP®, in his sole discretion, may waive his minimum fee and/or charge a lesser investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets involved, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.).

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### **Expense Ratios**

Mutual funds and Exchange-Traded Funds generally charge a management fee for their services as investment managers. The fund management fee is called the expense ratio. For example, an expense ratio of 0.50 means that the mutual fund company charges 0.5% for their services. These fees are in addition to the fees paid by clients to MICHAEL PACE, CFP®.

Performance figures quoted by mutual fund companies in various publications and websites are after their fees have been deducted, so are the net investment returns an investor receives.

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### **Past Due Accounts and Termination of Agreement**

MICHAEL PACE, CFP® reserves the right to stop work on any account that is more than 30 days overdue. In addition, MICHAEL PACE, CFP® reserves the right to terminate any financial planning engagement where a client has willfully concealed or has refused to provide pertinent information about financial situations when necessary and appropriate, in MICHAEL PACE, CFP®'s judgment, to providing proper financial advice.

## **Performance-Based Fees**

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### **Sharing of Capital Gains**

Fees are not based on a share of the capital gains or capital appreciation of managed securities.

MICHAEL PACE, CFP® does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

## Types of Clients

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### Description

MICHAEL PACE, CFP® generally provides investment advice to individual clients and families. Client relationships vary in scope and length of service.

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### Account Minimums

There is a minimum investment management fee of \$6,000 per year. At a nominal 1% investment management fee, this equates to an investment portfolio of approximately \$600,000. MICHAEL PACE, CFP® has the discretion to waive the account minimum.

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## Methods of Analysis, Investment Strategies and Risk of Loss

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### Methods of Analysis

Security analysis methods may include charting, fundamental analysis, technical analysis, and cyclical analysis.

The main sources of information include financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, timing services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases.

Other sources of information that MICHAEL PACE, CFP® may use include Charles Schwab & Company's services, Advisor Intelligence, and websites found on the World Wide Web.

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### Investment Strategies

The investment strategy for a specific client is based upon the goals and objectives identified by the client during consultations. The client may change these goals and objectives at any time. Each Investment Management client executes an Investment Policy Statement that documents their goals and objectives and their preferred investment strategy.

Other strategies may include long-term purchases, short-term purchases, trading, short sales, margin transactions, and option writing (including covered options, uncovered options or spreading strategies).

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### Risk of Loss

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** International investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e., interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

## Disciplinary Information

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### Legal and Disciplinary

MICHAEL PACE, CFP® has not been involved in legal or disciplinary events related to past or present investment clients.

## Other Financial Industry Activities and Affiliations

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### Financial Industry Activities

MICHAEL PACE, CFP® is not registered as a securities broker-dealer, or a futures commission merchant, commodity pool operator or commodity trading advisor.

### Affiliations

MICHAEL PACE, CFP® has no arrangements that are material to its advisory or its clients with a related person who is a broker-dealer, investment company, other investment advisor, financial planning firm, commodity pool operator, commodity trading adviser or futures commission merchant, banking or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant, real estate broker or dealer, or an entity that creates or packages limited partnerships.

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

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### Code of Ethics

MICHAEL PACE, CFP® has committed to a Code of Ethics that is available for review by clients and prospective clients upon request. Alternatively, it may be found on the MICHAEL PACE, CFP® website.

### Participation or Interest in Client Transactions

MICHAEL PACE, CFP® may buy or sell securities that are also held by clients. MICHAEL PACE, CFP® may not trade his own securities ahead of client trades.

### Personal Trading

The Chief Compliance Officer of MICHAEL PACE, CFP® is Michael Pace. Since most trades for Michael Pace are small mutual fund trades or exchange-traded fund trades, the trades do not affect the securities markets.

## Brokerage Practices

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### Selecting Brokerage Firms

MICHAEL PACE, CFP® does not have any affiliation with product sales firms. Specific custodian recommendations are made to Clients based on their need for such services. MICHAEL PACE, CFP® recommends custodians based on the proven integrity and financial responsibility of the firm and the best execution of orders at reasonable commission rates.

MICHAEL PACE, CFP® recommends discount brokerage firms and trust companies (qualified custodians), such as Charles Schwab & Company, Vanguard, and Fidelity. MICHAEL PACE, CFP® does not receive fees or commissions from any product sales firms or custodian.

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### Best Execution

MICHAEL PACE, CFP® reviews the execution of trades at each custodian each month. Trading fees charged by the custodians are also reviewed on a monthly basis. MICHAEL PACE, CFP® does not receive any portion of the trading fees.

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### Soft Dollars

MICHAEL PACE, CFP® receives no software maintenance credit from Charles Schwab & Company even though some client assets are custodied (located) at Charles Schwab & Company.

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### Order Aggregation

Trades of mutual funds or exchange-traded funds for clients of MICHAEL PACE, CFP® are not involved in trade aggregation.

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## Review of Accounts

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### Periodic Reviews

Account reviews are performed quarterly by Michael Pace, CFP®. Account reviews are performed more frequently when market conditions dictate.

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### Review Triggers

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's own situation.

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### Regular Reports

MICHAEL PACE, CFP® considers the client's current security positions and the likelihood that the performance of each security will contribute to the investment objectives of the client.

Investment Management Clients receive periodic communications on at least a quarterly basis. Additionally, year-end reports typically include a net worth statement, or Balance Sheet, updated each year.

## **Client Referrals and Other Compensation**

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### **Incoming Referrals**

MICHAEL PACE, CFP® has been fortunate to receive a number of client referrals over the years. The referrals came from current clients, estate planning attorneys, accountants, and other similar sources. No compensation is paid to referring parties for these referrals.

### **Referrals Out**

MICHAEL PACE, CFP® does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to him.

## **Custody**

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### **Account Statements**

All assets are held at qualified custodians, which means the custodians provide account statements directly to clients at their address of record, or digitally via the custodian's website, at least quarterly.

### **Performance Reports**

Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided by MICHAEL PACE, CFP®.

### **Net Worth Statements**

Clients are generally provided net worth statements (Balance Sheets) annually. Net worth statements contain approximations of bank account balances provided by the client, as well as the value of land and hard-to-price real estate. The net worth statements are used for long-term financial planning where the exact values of assets are not material to the financial planning tasks.



## Investment Discretion

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### **Discretionary Authority for Trading**

MICHAEL PACE, CFP® accepts discretionary authority to manage securities accounts on behalf of clients. MICHAEL PACE, CFP® generally has the authority to determine without obtaining client consent the securities to be bought or sold, and the amount of the securities to be bought or sold.

MICHAEL PACE, CFP® generally consults with the client prior to each trade to obtain concurrence, if a blanket trading authorization has not been given.

The client approves the custodian to be used and the commission rates paid to the custodian. MICHAEL PACE, CFP® does not receive any portion of the transaction fees or commissions paid by the client to the custodian on certain trades.

Discretionary trading authority facilitates placing trades in client accounts on a client's behalf so that the investment policy that a client has approved in writing may be promptly implemented.

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### **Limited Power of Attorney**

A limited power of attorney is a trading authorization for this purpose. Clients generally sign a limited power of attorney so that trades approved by the client may be executed on behalf of the client.

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## Voting Client Securities

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### **Proxy Votes**

MICHAEL PACE, CFP® does not vote proxies on securities. Clients are expected to vote their own proxies.

When assistance on voting proxies is requested, MICHAEL PACE, CFP® will provide recommendations to the Client. If a conflict of interest exists, it will be disclosed to the Client.

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## Financial Information

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### **Financial Condition**

MICHAEL PACE, CFP® does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because MICHAEL PACE, CFP® does not serve as a custodian for client funds or securities, and does not require prepayment of fees.

## **Business Continuity Plan**

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### **General**

MICHAEL PACE, CFP® has a Business Continuity Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications, and services.

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### **Disasters**

The Business Continuity Plan covers natural disasters such as snow storms, hurricanes, tornados, and flooding. The Plan covers man-made disasters such as loss of electrical power, loss of water pressure, fire, Internet outage, railway accident and aircraft accident. Electronic files are backed up daily and archived offsite.

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### **Alternate Offices**

Alternate offices would be identified to support ongoing operations in the event the main office is unavailable. It is Michael Pace's intention to contact all clients within five business days of a disaster that dictates moving his office to an alternate location.

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### **Loss of Key Personnel**

MICHAEL PACE, CFP® has made arrangements with an advisor colleague to support the clients of MICHAEL PACE, CFP® in the event of Michael Pace's serious disability, or death. The arrangements with the advisor colleague are short-term in nature, and intended to assist the clients in transitioning to another financial advisor or resuming the management of their own investments.

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## **Information Security Program**

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### **Information Security**

MICHAEL PACE, CFP® maintains information security measures to reduce the risk that a client's personal and confidential information may be breached.

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## Privacy Notice

MICHAEL PACE, CFP® is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to him.

The categories of nonpublic information that MICHAEL PACE, CFP® may collect from clients may include information about a client's personal finances, information about health (to the extent that it is needed for the financial planning process), information about transactions between clients and third parties, and information from consumer reporting agencies, e.g., credit reports. MICHAEL PACE, CFP® uses this information to help clients meet their personal financial goals.

With client permission, MICHAEL PACE, CFP® discloses limited information to attorneys, accountants, and mortgage lenders with whom clients have established a relationship. Clients may opt out from MICHAEL PACE, CFP®'s sharing information with these nonaffiliated third parties by notifying him at any time by telephone, mail, fax, email, or in person. With client permission, MICHAEL PACE, CFP® shares a limited amount of information about you with the client's brokerage firm in order to execute securities transactions on a client's behalf.

MICHAEL PACE, CFP® maintains a secure office to ensure that client information is not placed at unreasonable risk. A firewall barrier, secure data encryption techniques and authentication procedures are employed in the computer environment.

MICHAEL PACE, CFP® does not provide client personal information to mailing list vendors or solicitors. MICHAEL PACE, CFP® requires strict confidentiality in his agreements with unaffiliated third parties that require access to client personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review his Company records and client personal records as permitted by law.

Personally identifiable information about clients will be maintained while a client works with MICHAEL PACE, CFP®, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

MICHAEL PACE, CFP® will notify you in advance if his privacy policy is expected to change. MICHAEL PACE, CFP® is required by law to deliver this *Privacy Notice* to clients annually.

## Brochure Supplement (Part 2B of Form ADV)

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### Education and Business Standards

MICHAEL PACE, CFP® requires that advisors in his employ have an education standard which is that of a Certified Financial Planning® practitioner.

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### Professional Certifications

Employees have earned certifications and credentials that are required to be explained in further detail.

Certified Financial Planner® practitioner (CFP®): Certified Financial Planner® practitioner are licensed by the CFP Board to use the CFP mark. Current CFP certification requirements are:

- Bachelor's degree from an accredited college or university.
  - Completion of the financial planning education requirements set by the CFP Board ([www.cfp.net](http://www.cfp.net)).
  - Successful completion of the 10-hour CFP® Certification Exam.
  - Three-year qualifying full-time work experience.
  - Successfully pass the Candidate Fitness Standards and background check.
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### Michael Pace, CFP®

Educational Background:

- Date of birth: 12/03/1950
- Institutions:
  - Bachelor of Science, Civil Engineering, University of Washington, Seattle, WA 1973
  - Master of Science, Industrial Engineering & Business, UW, Seattle, WA 1974
  - Certified Financial Planning practitioner, College for Financial Planning, Denver, CO 1987
  - Master of Science in Financial Planning, College for Financial Planning, Denver, CO 1996

Business Experience:

- Self-employed as CFP® practitioner from 1988 – 1999 part time
- Self-employed as CFP® practitioner since 1999 full time

Disciplinary Information: None

Other Business Activities: None

Additional Compensation: None

Supervision:

MICHAEL PACE, CFP® has no employees other than Michael Pace.

Arbitration Claims: None

Self-Regulatory Organization or Administrative Proceeding: None

Bankruptcy Petition: None