

Connolly Financial Advisors, LLC

Brochure September 2017



CONNOLLY FINANCIAL ADVISORS, LLC

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Disclosure statement: This brochure provides information about the qualifications and business practices of Thomas J Connolly and Connolly Financial Advisors, LLC. If you have any questions about the contents of this brochure, please contact me at tjc@theconnollyfinancialadvisors.com or at (917) 940-9597.

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 Thomas J. Connolly and Connolly Financial Advisors, LLC, is available on the SEC's website at www.adviserinfo.sec.gov.

Table of Contents

Part 2A of Form ADV

1. Item 1: Cover Page: See Above.
2. Item 2: Material Changes: Not applicable as this Brochure is the inaugural document.
3. Item 3: Table of Contents: Current page
4. Item 4: Advisory Business: Description and history of Connolly Financial Advisors, LLC – page 3
5. Item 5: Fees and Compensation – page 4
6. Item 6: Performance-Based Fees – page 6
7. Item 7: Types of Clients – page 6
8. Item 8: Methods of Analysis, Investment Strategies and Risk of Loss – page 6
9. Item 9: Disciplinary Information – page 8
10. Item 10: Other Financial Industry Activities and Affiliations – page 8
11. Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading – page 8
12. Item 12: Brokerage Practices – page 8
13. Item 13: Review of Accounts – page 9
14. Item 14: Client referrals and Other Compensation – page 9
15. Item 15: Custody – page 9
16. Item 16: Investment Discretion – page 9
17. Item 17: Voting Client Securities – page 10
18. Item 18: Financial Information – page 10
19. Item 19: Requirements for State-Registered Advisers – page 10

Part 2B of Form ADV

Thomas J Connolly is the sole owners and the only Adviser of Connolly Financial Advisors, LLC. Accordingly, the information required by Section 2B is already present in the information above in section 2A.

Item4: History and nature of the Connolly Financial Advisors, LLC Investment Advisory Business

Connolly Financial Advisors, LLC (“CFALLC”) offers investment related advisory services for individuals and families.

The services offered by CFALLC include investment portfolio performance reviews, advising on matters of appropriate investment selection, on designing and building the portfolio that most effectively meets the person’s or families’ financial and life profile, making securities recommendations for investment or disposal, undertaking discretionary trading within client owned investment accounts, and the monthly distribution of a subscription based newsletter that covers historical and emerging market trends, the outlook for economic growth, and other matters pertaining to the risks and rewards of investing.

The Connolly Financial Advisors’ Investment Advisory business is conducted through signed client engagement letters that define the specific terms of engagement, including: project scope, communication expectations, client responsibilities, project deliverables, report timing, and the fees to be charged for the services rendered. Fees are either fixed in amount at the beginning of the engagement, variable based on changes in portfolio asset values, or based on hours worked at a pre-defined rate per hour. Assets Under Management as of September 30, 2017, approximate \$2 million, and these assets are managed on a discretionary basis.

Each client engagement begins by establishing a solid client profile that is developed through a detailed interview process. Understanding the client’s goals, risk preferences and tolerances, their stage in life, existing and future obligations, current asset and income factors and expected changes to that profile, as well as the needs arising from children and/or aging parents, are all critical aspects to the development of an investment plan that strives to meet the outcomes desired by the client. This personal approach is the cornerstone of the Connolly Financial Advisors service platform.

Thomas J. Connolly is the sole owner and investment adviser of Connolly Financial Advisors, LLC. His experience includes investing across the spectrum of financial assets, including stocks, bonds, options, futures, currencies and commodities. His investment advice and decisions are based on analysis of the economy and the securities markets that have been developed during more than 30 years of active research and investing. In addition to his experience in the investing world, Mr. Connolly has developed a broad understanding of business, inclusive of corporate merger and acquisition activities, through his executive roles in industry and consulting. He has served as the Managing Partner for the Ernst & Young (“EY”) Northeastern United States Transaction Advisory Service Practice (2010 – 2013), as the Global Transaction Service leader for EY’s Media and Entertainment Industry Transaction Advisory Services Practice (2007- 2015), as Sony Music’s Global Head of Business Development (2001-2003), and as the Chief Financial Officer of Sony’s U.S. based investment subsidiary 550 Digital Media Ventures (1998-2001). Mr. Connolly is a Certified Public Accountant, holds a Master’s Degree in Finance from Columbia University and a Bachelor’s Degree in Accounting from the State University of New York at Albany. Mr.

Connolly has successfully passed the North America Securities Administrators Association Uniform Investment Adviser Law Examination qualifying him to apply for registration through the United States Securities and Exchange Commission as a State Registered Investment Adviser.

CFALLC was formed as a limited liability corporation in 2004. Between 2004 and 2007, CFALLC provided corporate consulting services that addressed organizational and internal operational matters. Between 2007 and 2016, the company was inactive given the executive roles undertaken by Thomas J. Connolly as a Partner with Ernst & Young. There are no other business activities engaged in by Thomas J. Connolly or CFALLC, other than as disclosed in this document.

Item 5: Fees and Compensation

The Connolly Financial Advisors' engagement fees for investment advisory services are calculated based on either a time and materials basis, a fixed fee basis, or a variable fee basis. The monthly newsletter fee is based on an annual subscription model.

The **time and material fees** are computed based on the number of hours worked multiplied by an engagement specific agreed hourly rate, plus out-of-pocket expenses incurred for travel or other incidental needs. Presently, the per hourly rate is \$250 per hour, and is subject to change based on market factors. Client engagements that typically utilize this fee structure include recurring small to mid-sized projects that involve counseling on investment ideas, high-level reviews of portfolio composition with a critique of the effectiveness of the portfolio in meeting the client's objectives, and general advice on market activity based on CFALLC's ongoing economic, fundamental and technical market analyses.

The **fixed fee** arrangements are based on the scope parameters of the individual engagement and are agreed with the client prior to the commencement of the engagement. Projects that typically utilize the fixed fee structure often involve greater depth of analysis and research, often involving portfolio performance assessments based on a multi-year review of client investment activity and related results. In-depth written reports to the client that include the results of the analysis and recommendations to restructure/rebalance portfolios to better meet client goals, with specific asset classes and identified securities to be acquired or disposed of, are typical of the character of these types of engagements.

Variable based fees govern those engagements where the client meets high net worth qualifications and provides Thomas J. Connolly with access to and discretionary trading authority over their brokerage account (a power of attorney for account trading authorization must be executed). Fees for this service are based on a percentage of the asset values at the start of the engagement, with the asset fee percentage rate subject to increase based on the change in the value of the account compared to the change in a defined performance index (the S&P 500 Index for example). The minimum period of discretionary trading authority and fee measurement is one year. The base percentage rate fee is 1% of the account value at the commencement of the engagement for accounts with beginning assets of \$500,000 or more (note the minimum annual base dollar fee for accounts under \$500,000 is \$5,000). The base asset fee percentage rate of 1% will increase by twenty percent of the account's growth rate above the index growth rate, provided there is a minimum 2.5% client return. Should the client portfolio return be less than 2.50% for the measurement period, the fee is capped at the initial base fee

percentage of 1% even if the portfolio outperforms the Index. The exhibit table below provides an example of this variable fee structure.

CONNOLLY FINANCIAL ADVISORS VARIABLE BASED PERFORMANCE FEE EXAMPLE							
	Beginning Portfolio Value		\$1,000,000				
	Base Asset Fee Percentage		1.00%				
	Base Annual fee		\$10,000				
	Incentive Trigger		2.50%				
Client	Client		Fee Schedule based on Portfolio return vs the S&P 500				
Ending	Portfolio						
Portfolio	Percentage		S&P 500 Return and Performance Rate Grid				
Value	Change	S&P	-10%	-5%	0%	5%	10%
\$950,000	-5.0%		1.00%	1.00%	1.00%	1.00%	1.00%
\$1,000,000	0.0%		1.00%	1.00%	1.00%	1.00%	1.00%
\$1,050,000	5.0%		3.50%	2.50%	1.50%	1.00%	1.00%
\$1,100,000	10.0%		4.50%	3.50%	2.50%	1.50%	1.00%
			Adjusted Annual Dollar Fee based on Performance				
\$950,000	-5.0%		\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
\$1,000,000	0.0%		\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
\$1,050,000	5.0%		\$35,000	\$25,000	\$15,000	\$10,000	\$10,000
\$1,100,000	10.0%		\$45,000	\$35,000	\$25,000	\$15,000	\$10,000

THIS TABLE IS FOR DEMONSTRATION PURPOSES ONLY AND IS NOT INTENDED TO INDICATE FUTURE PERFORMANCE THAT MAY BE REALIZED BY CLIENTS OF CFALLC

The **monthly newsletter** is distributed within the month of publication to subscribers for a fee of \$150 per annum for twelve consecutive monthly issues. Promotional discounts for the newsletter may from time-to-time be offered to new subscribers. **Trade Alerts** that are distributed to annual newsletter subscribers through email on the day a transaction is executed in Thomas J. Connolly’s personal investment account receive this service for an annual fee of \$100. A combined annual subscription to both the Newsletter and the Trade Alerts is available at \$250 per annum. Client relationships that include asset/portfolio management services receive the newsletter at no additional cost.

Payment of Fees

Advisory service fees are payable in accordance with the agreed engagement terms, but do not include advance prepaid fees. The Newsletter/Trade Alert service requires the full annual payment in advance.

Item 6: Performance Based Fees – Not applicable

Item 7: Types of Clients

The CFALLC Investment Advisory services are offered to individuals and families that are seeking to better understand the investment environment and the performance of their invested assets. The Advisory services offered are intended to help them make choices that maximize their effectiveness in allocating investment capital to securities that align with their objectives and goals.

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

CFALLC performs market based technical and fundamental analyses that are designed to identify investment opportunities that have the potential of providing returns that enable discreet portfolios to out-perform the market. The technical analyses incorporate historical comparisons of trends of key market components such as equity indexes, trading volumes, advancing vs declining issues, companies making new price highs and lows, movements in interest rates, the changing nature of the interest rate yield curve, relative purchasing power of currencies, the use of volatility measures computed based on mathematical and statistical standards, including the use of standard deviations from the mean, oscillators of strength and weakness, and moving averages. These analyses, many of which are proprietary to CFALLC, are performed on a daily, weekly and monthly basis.

The directional information derived from technical analysis provides only one leg of the stool that defines the recommendations, decisions and strategies offered by CFALLC. Another aspect that must align with the technical direction of the financial markets to yield the type of quality advice that CFALLC seeks to provide is the fundamental operating performance and relative value of investment alternatives available in the market. A key contributor to the formulation of equity recommendations is a proprietary portfolio of 187 companies. Each of these companies are assessed based on price earnings relationships, cash flow generation, cash flow growth projected into the future, operating and profit margins, balance sheet strength, net debt to market value, enterprise value to earnings before interest, taxes, depreciation, and amortization (“EBITDA), dividend yield, and current market value to discounted cash flow value. Incorporating these attributes in discreet company analysis identifies the strongest and weakest performers, while blending their attributes together to form a single security/market measure that enables historic comparisons of relative value of the complete portfolio to better identify meaningfully overvalued or undervalued market conditions and the changing conditions that may present unique investment opportunities.

Economic analysis is another key component of the CFALLC approach. A database of economic trends covering 30 years of activity is assessed weekly to identify underlying changes that may impact future strength or weakness in various sectors of the market as well as in the overall economy. The key variables are grouped into major components as either Economic factors, Money factors, Interest Rate factors, or Foreign Exchange factors. These factors are weighted to develop a composite view of the overall direction of the United States economy. There are 58 variables that are updated regularly and contrasted with their historic growth rates over time, as well as testing their continued correlations to other economic factors that help to develop leading indicators of change.

The data and analyses utilized are designed to identify investment opportunities while also highlighting risks in the marketplace. It is not uncommon for this approach to cause CFALLC to be early in identifying changes in the trend of the economy and the financial markets. Managing the timing of investment decisions then becomes critical, for being right about the future direction of the market is not always the best way to enhance and maximize returns on invested capital if the investment timing is wrong. Timing is a critical component of investing success, and becomes the final leg of providing successful investment advisory services. Bringing together the technical and fundamental factors provides a strong base from which to define the positions to be taken when the right time presents itself. It is the view of CFALLC that it is close to impossible to time the market, but that the most effective timing is very much influenced by identifying the tone of the market, the emotional temperature of money flows moving into or out of the market as influenced by broad macro-factors such as political dynamics and governmental regulatory decisions. These observable factors coupled with the intangible factors of the markets participants' tone and emotion all come together to form the basis of investment decisions and recommendations made by Thomas J. Connolly and Connolly Financial Advisors, LLC.

Thomas J. Connolly, as the sole owner and adviser of CFALLC, focuses on the strategy that best fits the goals and objectives of each individual client. Short-term (30 days or less), mid-term (up to one year), and long-term investing plans, as desired by the client, are formulated based on the specific account profile and the client's documented objectives. The use of varying investment styles are incorporated, including Tactical Asset allocation (repositioning of the portfolio as market and economic dynamics cause sectors or asset classes to be more or less favored), Strategic Asset allocation that adheres to a longer term horizon without active repositioning in response to current market movements (maintaining a core position of securities for the long-term), and Active Management (relatively frequent modifications to the portfolio to take advantage of market events and timing).

Regarding the risks that are evident in the actions that may be undertaken, after considering the analyses and input discussed above, it must be understood that there is risk with any investment endeavor, yet the highest degree of risk that is employed for clients that are comfortable with such level of risk exists with the use of options and futures within the discretionary investment service. These financial instruments may serve as hedges of existing investments within the portfolio, thereby seeking to reduce risk within the portfolio, or they may be purely speculative in nature which poses the greatest level of risk in the pursuit of above market returns. When trading speculative positions, the time a position is held may be minutes to hours to days. The goal is to capture market mispricing that typically is corrected by other market participants within a short time period. CFALLC is experienced in this area, but given the higher degree of risk with these securities, CFALLC will not engage in this speculative trading activity without prior written authorization, and then only for clients who have: (1) the depth of financial knowledge that demonstrates a clear understanding of these financial instruments; and (2), it is

evident that the client possesses the level of financial net worth that would minimize the impact to the overall asset base from the potential higher risk of loss from holding these type of speculative investment products. Investing in securities involves a risk of loss that the client must bear.

Item 9: Disciplinary Information

There are no legal or disciplinary events that are current in nature or in the history of Connolly Financial Advisors, LLC or its principal owner, Thomas J Connolly.

Item 10: Other Financial Industry Activities and Affiliations

Thomas J Connolly is a retired partner of the Accounting, Auditing and Advisory firm, Ernst & Young ("EY"). As a retired partner, Mr. Connolly receives pension benefits, a portion of which is derived from current earnings of EY. Mr. Connolly does not have any other relationship with EY.

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

Every client engagement that is considered for acceptance undergoes a review to identify any potential or actual conflicts of interest between the client, the services to be provided, the assets to be recommended or managed, and the investment holdings or relationships held by Thomas J. Connolly. Any conflicts or potential known conflicts of interest that exist at the time of engagement or that arise during the engagement will be communicated to the client and a signed waiver will be executed promptly, or the engagement will be terminated by mutual agreement between the client and CFALLC.

It is important to note that advice given to or trading activities done on behalf of clients by CFALLC and Thomas J. Connolly may duplicate investment holdings held personally by Thomas J. Connolly. For each client, a full disclosure will be made in advance of any instance where there is any overlap between the advice provided or actions to be taken where Thomas J. Connolly has a corresponding personal interest in the same security. This forward-looking commitment of prompt disclosure prior to executing any trade on behalf of a client or in accepting any advisory engagement does not include the daily reporting of investing activities in the Futures, Commodities and Currency Markets. It is to be understood that at all-times it will be assumed that there are positions held by Thomas J. Connolly in the S&P e-mini futures contract and in various currency and commodity instruments. On a weekly basis, for active client engagements, CFALLC will report to each client the type of Futures, Currency and Commodity positions that were traded in Thomas J. Connolly's personal account during the week and the open positions held in his personal account at the close of the week (after the markets close on each Friday).

No other known pre-engagement potential areas of conflict of interest exist.

Item 12: Brokerage Practices

Selection and/or recommendation of independent brokerage firms to execute trades of securities is based on realizing the optimum mix of lowest cost of trade in the form of commissions charged by the brokerage firm, the timeliness of trade settlement, the interest cost charged on margin loans, the

consistency of margin requirements in effect over time, the custodial history of the brokerage firm and the absence of disciplinary or other legal actions brought against the firm. Presently, there are three brokerage firms utilized by Connolly Financial Advisors, LLC, and they are: Charles Schwab & Company, Inc., Interactive Brokers LLC, and Muriel Siebert & Company, Inc. The selection of Brokers is at the client's direction, and may in the future include brokerage firms not presently listed.

In regard to services provided by the brokerage firms in the form of economic, market and individual stock analysis or other research materials that are provided or offered, there are no such activities subsidized by client paid commissions for which the value of the research is not utilized to benefit the clients' portfolio. Commissions paid are consistent with other brokerage firms and no mark-up or mark-down in commissions or other costs are realized in exchange for non-transactional activity.

Item 13: Review of Accounts

Client accounts that are asset managed accounts are subject to quarterly reviews with the client. This review consists of a written report and a conversation confirming stated goals of the account holder, performance of the portfolio for the quarterly period, changes in life circumstances that may impact the appropriateness of the investment strategy, and fees charged for the services provided.

Item 14: Client Referrals and Other Compensation

There are no referral or other compensatory relationships in existence that benefit Connolly Financial Advisors, LLC

Item 15: Custody

Connolly Financial Advisors LLC does not presently act in a custodial role for assets owned by its clients. Assets maintained at the independent third-party brokerage firms are reviewed daily by Connolly Financial Advisors LLC. It is incumbent upon the account holder/owner to review their account statements from the third party brokerage firm to determine accuracy of the accounts composition of assets and liabilities, and to compare the brokerage statements with the quarterly review reports provided by Connolly Financial Advisors LLC to ensure consistency and accuracy of the reports provided.

Item 16: Investment Discretion

Clients that desire Connolly Financial Advisors LLC to maintain and execute discretionary authority over trading and investing activity of their investment portfolio must execute a Power of Attorney authorizing Connolly Financial Advisors LLC and Thomas J Connolly to execute trades on their behalf.

Item 17: Voting Client Securities

Connolly Financial Advisors, LLC does not exercise voting control or decision-making authority in regard to shareholder voting matters of any stock holdings held in the name of clients by third party brokerage firms or other third party financial institutions. Proxies and other related shareholder correspondence from the Companies' for which client's have ownership interests will be distributed to the shareholder(s) from the Brokerage Firms that have custody of the assets. Voting actions are within the control of the shareholder and are not a part of the services offered by Connolly Financial Advisors, LLC.

Item 18: Financial Information

Financial Statement disclosure for Connolly Financial Advisors LLC is not required within this brochure as prepayment of fees in excess of \$1,200 per client is not a practice of Connolly Financial Advisors LLC.

Clients and or prospective clients that wish to review the latest Balance Sheet of Connolly Financial Advisors LLC may do so upon request. For prospective clients, the balance sheet will be provided subject to Thomas J Connolly's determination that a business relationship with the prospective client would likely be beneficial to both the client and to Connolly Financial Advisors LLC.

There are no financial or other impairments of Connolly Financial Advisors LLC or Thomas J Connolly that would impair the ability to meet contractual commitments to clients.

Item 19: Requirements for State Registered Advisers

Thomas J. Connolly is the sole owner and investment adviser of Connolly Financial Advisors, LLC. His experience includes investing across the spectrum of financial assets, including stocks, bonds, options, futures, currencies and commodities. His investment advice and decisions are based on analysis of the economy and the securities markets that have been developed during more than 30 years of active research and investing. In addition to his experience in the investing world, Mr. Connolly has developed a broad understanding of business, inclusive of corporate merger and acquisition activities, through his executive roles in industry and consulting. He has served as the Managing Partner for the Ernst & Young ("EY") Northeastern United States Transaction Advisory Service Practice (2010 – 2013), as the Global Transaction Service leader for EY's Media and Entertainment Industry Transaction Advisory Services Practice (2007- 2015), as Sony Music's Global Head of Business Development (2001-2003), and as the Chief Financial Officer of Sony's U.S. based investment subsidiary 550 Digital Media Ventures (1998-2001). Mr. Connolly is a Certified Public Accountant, holds a Master's Degree in Finance from Columbia University and a Bachelor's Degree in Accounting from the State University of New York at Albany. Mr. Connolly has successfully passed the North America Securities Administrators Association Uniform Investment Adviser Law Examination qualifying him to apply for registration through the United States Securities and Exchange Commission as a State Registered Investment Adviser.

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