



# Disclosure Brochure

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McNally Financial Services Corporation  
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This brochure provides information about the qualifications and business practices of McNally Financial Services Corporation. If you have any questions about the contents of this brochure, please contact Barrett Schultz at (210) 545-7080. 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 MFSC (IARD# 121196) is available on the SEC's website at [www.investor.gov](http://www.investor.gov).

MFSC is a state registered investment adviser. Registration does not imply any level of skill or training.

## **Material Changes**

There are no material changes to this Disclosure Brochure when compare to the previously published version.

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# MFSC Disclosure Brochure

## Advisory Business

McNally Financial Services Corporation (“MFSC”) is an investment advisor providing financial planning and other portfolio management services for individuals and small businesses. MFSC is primarily owned by David D. McNally and the services discussed herein are offered through qualified, independent investment advisors. In addition to investment advisory related services, MFSC is an introducing broker/dealer and some of its advisors are also registered representatives serving as brokers or agents.

The firm has offered investment advisory services since 2007. Currently, MFSC is a state registered investment advisor and is registered in Texas, California, Florida, and Nevada. As of March 31, 2021, MFSC had \$29,401,851 in assets under management, most of which are managed on a discretionary basis.

This brochure discloses certain key facts about MFSC that should be considered by all customers and potential customers of the firm or its investment advisors. Any questions about its content should be directed toward MFSC.

### Financial Planning

MFSC offers financial planning and portfolio management services. MFSC may recommend the use of their services and/or other professionals, which may introduce some conflicts of interest should MFSC or an affiliate be chosen to execute the financial plan. Clients are under no obligation to act upon any of the recommendations made by MFSC. Further, clients are advised that it is their responsibility to notify MFSC of any change in their financial situation or investment objectives for the purpose of reevaluating MFSC’s previous recommendations.

### Investment Management

MFSC can be engaged to manage all or a portion of a client’s assets. All advisory services are tailored to fit the needs of each individual client, which includes, but is not limited to, an understanding of their financial situation and investment objectives. To do so, MFSC meets with clients initially and on an ongoing basis to understand various factors affecting each client (e.g., risk tolerance, time horizon, investment experience, etc.). Such reviews allow MFSC to ensure that all investments are suitable to the needs of each client.

MFSC may allocate client’s managed assets among Independent Managers, mutual funds, exchange-traded funds, individual debt and equity securities, options, variable annuities, limited partnerships, and many other investable options. The determination of which option(s) chosen will solely be based upon the suitability of such an investment for each client. Additionally, investments are analyzed by MFSC or its agents through a thorough assessment of financial documents, public filings, and independent reports (e.g., S&P, Morningstar, etc.).

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## Use of Independent Managers

As previously mentioned, MFSC may recommend that some clients utilize the services of independent investment managers based upon their unique financial situation and/or investment objectives. In such cases, the terms and conditions under which the client engages an Independent Manager are set forth in a separate written agreement between MFSC or the client and the Independent Manager. If an Independent Manager is used, the client may incur investment management fees charged by the Independent Manager.

MFSC, prior to any engagement, performs due diligence of the Independent Manager commensurate with the complexity of the investment vehicle. MFSC also monitors and reviews the account performance and the client's investment objectives on an ongoing basis, including at the time transactions are conducted, to ensure that investments are suitable for the client's unique circumstances.

## **Fees and Compensation**

MFSC offers its services on a fee basis, which may include hourly and/or fixed fees or fees based upon a percentage of assets under management. All fees are negotiable.

### Financial Planning and Consulting Fees

MFSC typically charge clients \$150.00 per hour for financial planning and other consultative services. In some cases, clients are charged on a fixed fee basis for comprehensive financial plans, which generally range between \$500.00 and \$1,500.00. As previously stated, all fees, whether hourly or fixed, are negotiable.

### Investment Management Fees

Investment management services are offered as a percentage of assets managed by MFSC. The annual fee is exclusive of, and in addition to, brokerage commissions, transaction fees, and any other related costs and expenses associated with the management of the client's assets. MFSC's annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by MFSC on the last day of the previous quarter. Investment management fees are deducted from the client's account unless the client elects to be billed separately. If the fee is deducted, then MFSC, through the account custodian, or the Independent Manager is authorized to disburse the set management fee. As detailed further below in the *Custody* section, the custodian of the client's account has agreed to send each client statements at least quarterly. These statements itemize any management fees or other charges assessed.

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MFSC, in its sole discretion, may negotiate lesser management fees than outlined below based upon certain criteria (i.e., dollar amount of assets managed, related accounts, etc.). The annual fee varies depending upon the market value of the assets under management as follows:

Portfolio Increment	Annual Client Fee
0 - \$100,000	2.0%
\$100,000 - \$500,000	1.75%
\$500,000 - \$1,000,000	1.5%
\$1,000,000 +	1.25%

MFSC investment advisors are only compensated based upon the value of the assets under management. No advisor or their supervisor will receive any compensation for the sale of securities or other investment products to clients, including asset-based sales charges or service fees from the sale of mutual funds, as this practice presents a conflict of interest.

For the initial period of investment management services, the fees shall be calculated on a *pro rata* basis. Services will continue to be offered by MFSC for the client until terminated by either party. If an advisory agreement is terminated, a refund is issued. Termination refunds are prorated through the termination date and the calculated amount will be deposited into the client account.

Additional funds may be added to an account at any time, either in cash or securities. MFSC reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level, and/or tax ramifications. The new funds will be used to assess the asset-based fee during the subsequent quarterly calculation period.

## Fees Charged by Others

Additional fees for account management may be incurred by a mutual fund or other investment vehicle (e.g., limited partnership, variable annuity, etc.). Any custodial fees charged by a custodian will be charged separately from advisory fees and will be debited by the custodian in a manner disclosed at account opening.

Charges for trading and other activities may apply depending upon the brokerage firm selected, which is address below in the *Brokerage Practices* section. To the extent that trade commissions are charged by the broker/dealer when acting as both an advisor and broker, commission charges will generally be discounted.

## Performance-Based Fees and Side-by-Side Management

Performance-based management and side-by-side management are investment management agreements whereby the investment advisors fee is based on asset appreciation. MFSC does not provide performance-based fee services nor does the firm participate in this type of fee structure with any other entity.

## Types of Clients

MFSC generally provides its services to individuals. Account types include individual accounts, joint accounts, retirement accounts, trusts, and closely held corporations. MFSC has not imposed a minimum account size, but the firm reserves the right to refuse accounts of any size.

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

### Methods of Analysis

MFSC's primarily uses fundamental analysis for equity and debt offerings. Fundamental analysis involves assessing everything that can affect a security's value, including macroeconomic forces and company specific factors. MFSC assesses the company's financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors prior to making recommendations. Particular emphasis is paid to their earnings per share, sales per share, earnings trend, net profit, debt-equity ratio, revenue sources, and their outlook. The primary risks investing in stocks include: analysis methodology, including the use of fundamental analysis, may be flawed; and, while the overall health and position of a company may be good, market conditions may negatively impact the security.

To the extent that investment vehicles are used (e.g., mutual funds, ETFs, Limited Partnerships, etc.), MFSC reviews various factors, including available research reports, the vehicle's stated investment objective, historical performance, length of the investment, qualifications of the management team, management tenure, and vehicle diversification. The primary risks associated with relying upon such review factors include: analysis methodology may be flawed; and, misunderstanding of the vehicle's objectives or terms. As detailed further below, investing in investment vehicles and the risks associated with them are tied to the risks of the underlying investments. The higher inherent risk of the underlying investment, the higher the risk of the investment vehicle.

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## **Investment Strategies**

MFSC's primary investment strategy is to develop well diversified portfolios by investing client assets in common stock, debt securities, mutual funds, ETFs, limited partnerships, and other investment vehicles, including money market funds or other cash instruments. All investment strategies are based upon the client's financial situation and investment objective. The allocation of assets for any client or mix of a client's portfolio will be based upon their unique situation and can vary depending upon market forces and strategy execution.

Additionally, MFSC may incorporate an option strategy for certain clients. The use of options allows clients to generate income, hedge (limit) losses on equity securities held by clients, or capitalize on anticipated market movements in the underlying security. In such cases, a client's investment acumen will be assessed prior to engaging in an option strategy to ensure that it is appropriate for the client.

MFSC encourages all clients to undergo a comprehensive needs analysis and suitability review to ensure the investment strategy chosen is appropriate for the client's goals. MFSC conducts interviews and administers a client questionnaire to understand the client's risk tolerance and investment objectives.

MFSC may also recommended the use of limited partnerships to certain accredited investors. In the event that a limited partnership is selected, no more than 25% will be allocated to a single issue and no more than 30% of the client's liquid net worth will be invested in a single issue.

## **Risk of Loss**

### **General Risk of Loss**

All investing involves risks, including the risk that a client's investment may be lost. All clients should be prepared to bear such loss.

MFSC's management style may be deemed speculative and is intended for sophisticated investors. The strategies offered by MFSC should not be viewed as a complete investment program. No guarantee or representation is made that clients will achieve their investment objective.

### **Market Risk**

All investments are subject to market risk. Market risk is the possibility that a client may experience losses due to factors that affect the overall performance of the financial markets. Such risk cannot be eliminated through diversification. Sources of market risk include recessions, political turmoil, interest rate changes, natural disasters, and terrorist attacks.



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## **Company Risk (Equity and Debt Offerings)**

Company risk, or specific risk, is risk associated with a particular company. Such risk extends to all securities associated with the company. In essence, risk of company failure, inability to deliver stated objectives, and corporate fraud are all risks associated with individual companies. Diversification is a key tool that can be used to reduce company risk.

## **Mutual Funds and Exchange Traded Funds (ETFs)**

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual funds and ETFs are subject to secondary market trading risks. Shares of mutual funds and ETFs will be listed for trading on an exchange, however, there can be no guarantee that an active trading market for such shares will develop or continue. There can be no guarantee that a mutual funds' and ETFs' exchange listing or ability to trade its shares will continue or remain unchanged. Shares of the mutual fund or ETF may trade on an exchange at prices at, above or below their most recent net asset valuation (NAV), which is the price that an investor would buy or sell the mutual fund or ETF at. The per share NAV of a mutual fund or ETF is calculated at the end of each business day, and fluctuates with changes in the market value of the mutual fund's or ETF's holdings. The trading prices of a mutual fund's or ETF's shares may differ significantly from NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's ETF's shares trading at a premium or discount to NAV.

## **Options**

Options involve risks and are not suitable for everyone. Option trading is speculative in nature and carries substantial risk of loss. Depending upon the option strategy, the loss may be limited to the premium paid or ownership of the underlying shares. Alternatively, losses may be unlimited. All strategies should be individually assessed prior to entering into an option contract to understand the specific risks associated with the transaction.

## **Use of Independent Managers**

MFSC may recommend the use of Independent Managers for certain clients. While MFSC will perform initial and ongoing due diligence of such managers, the recommendations rely, to a great extent, on the Independent Manager's ability to successfully implement their investment strategy. MFSC does not have the ability to supervise the Independent Managers on a day-to-day basis, if at all.

## **Disciplinary Information**

MFSC is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. MFSC, as an investment advisor, has no such disclosures. Additionally, neither management person detailed below in section *Requirements for State Registered Investment Advisors* have been the subject of a censure, fine, lawsuit, or other proceeding as they may relate to activities covered by this disclosure.

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The firm, however, has been the subject of regulatory findings and censures as a result of services performed as a broker/dealer. More specifically, MFSC was fined \$15,000 by FINRA in July 2013 for failure to establish and maintain an adequate supervisory program over steepeners, which are a type of interest rate swap.

## Other Financial Industry Activities and Affiliations

MFSC offers additional services to its clients as detailed below:

- Broker/dealer – MFSC, and its agents, are registered with FINRA and is a member of the Securities Industry and Financial Markets Association.
- Insurance – MFSC offers insurance as a Texas General Lines Insurance Agency.

Neither MFSC nor its affiliated persons have any relationships that would cause a material conflict of interest with clients. While MFSC may recommend other investment advisors for our clients for a fee as discussed above, the firm does not believe that such recommendations create a material conflict of interest. In any event, MFSC reviews all client accounts and their investment allocation on an ongoing basis to help ensure that all client investments continue to remain appropriate for their unique situation.

## Code of Ethics

Even though MFSC is not an SEC-registered investment advisor, MFSC maintains a Code of Ethics that all associated advisors and employees are expected to adhere to. MFSC's Code of Ethics expressly prohibits its advisors from entering into any transaction or relationship that may presents an actual or implied conflict of interest. Firm personnel are not prohibited from investing in the same or similar securities recommended to clients; however, MFSC, either as an entity or through the actions of an affiliated person, cannot be the cause of front-running (purchase of securities prior to the execution of a client order for the express purpose of profiting off of an upcoming transaction). As such, investment statements and trade confirmations are reviewed for all associated persons.

A copy of the Code of Ethics will be made available to any client or prospective client upon request.

## Brokerage Practices

Generally, MFSC strives to ensure that all ancillary services necessary to maintain an investment management relationship are performed by well-qualified and highly-regarded entities. As such, MFSC primarily recommends that clients utilize Pershing, LLC, a wholly owned subsidiary of The

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Bank of New York Mellon Corporation, for brokerage and clearing services. Factors which MFSC considers in recommending Pershing includes: financial strength; reputation; execution quality; pricing structure; research; and service. Pershing enables MFSC to obtain many mutual funds and other investment vehicles with little or no transaction charges or other fees. The commissions and/or transactions fees charged by Pershing may be higher or lower than other non-recommended financial institutions.

While MFSC does recommend a clearing broker/dealer to clients, MFSC does not receive compensation or other benefits for referral of client transactions or directed brokerage. Additionally, MFSC does not receive any free research or soft dollar compensation as a result of directing transactions to Pershing or any other clearing broker/dealer.

Any client can direct that their transactions are executed by any broker/dealer; however, if MFSC does not have an existing relationship with the entity, MFSC may not be able to ensure best execution for any transaction. Further, clients may incur higher execution costs as a result.

Transactions for each client will be effected independently. Purchase of the same security executed on the same day are not aggregated into one large order for multiple client accounts. Trading instructions will be executed on a first-come, first-served basis. The decision to not aggregate transactions does not result in additional costs to clients.

## **Review of Accounts**

All managed accounts are reviewed at least annually. Client account reviews include, but are not limited to, an assessment of the investment strategy, client holdings, trading history, and client financial information. MFSC will also conduct account reviews more frequently when requested by a client or deemed necessary by MFSC.

Client's receive periodic statements from the assigned custodian at least quarterly. MFSC does not prepare or disseminate investment reports to clients.

## **Client Referrals and Other Compensation**

MFSC does not receive an economic benefit for providing investment advisor or other advisory services to our clients due to the conflicts of interest doing so presents.

Additionally, MFSC does not compensate, either directly or indirectly, any person or entity for client referrals.

## Custody

MFSC does not have direct custody of any client funds or securities. All accounts are held by an assigned custodian. Each custodian utilized by MFSC has agreed to send a statement to each client, at least quarterly, that details all amounts disbursed from the account, including management fees paid directly to MFSC.

The primary custodians utilized by MFSC are:

Pershing, LLC  
One Pershing Plaza  
Jersey City, NJ 07399  
(201) 413-2000

EQIS Capital Management, Inc.  
1000 4<sup>th</sup> Street, Ste. 650  
San Rafael, CA 94901  
(800) 949-9936

## Investment Discretion

MFSC may accept discretionary authority over managed client accounts. To allow such authority, clients must expressly consent to MFSC exercising discretion over the account. Additionally, a power-of-attorney agreement must be signed and trading authorizations must be obtained to fully document the discretionary relationship between MFSC and the client. Currently, MFSC does not have discretionary authority over any client account.

Clients always retain full discretion over their accounts and their investments. Statements from the custodian of record are supplied to each client on an ongoing basis. Should clients have any questions or concerns regarding their investments, they are advised to contact MFSC. In the event that a client has specific investment requests to exclude or include certain companies or industries (e.g., tobacco, energy, international, etc.), MFSC will work with the client to ensure that such requests are met to the extent practical; however, MFSC cannot guarantee that such requests will be met, which will be disclosed to the client before any investments are made in their accounts.

## Voting Client Securities

MFSC does not vote client securities on behalf of its clients. Clients receive proxy material directly from the custodian, and they can vote using the mechanisms detailed in the proxy material. Any questions regarding proxy materials are directed to the issuer and its agents.

## Financial Information

MFSC does not require or solicit the prepayment of more than \$500 in fees six months or more in advance.

MFSC does not have any financial conditions that are likely to impair its ability to meet contractual commitments to clients. Further, MFSC has not been the subject of a bankruptcy petition.

## Requirements for State Registered Investment Advisors

### Principal Officers and Management Personnel

Below is the formal education and business background for each of MFSC's management personnel:

#### **David D. McNally, CFP® - President**

##### *Post-Secondary Education:*

Northwestern University – 1969, B.A., Philosophy.

##### *Industry-related Experience:*

Mr. McNally is the President of MFSC and has more than 40 years of experience, primarily in the South Texas investment community. He has been employed with national and regional broker dealers as both a producer and manager and has extensive experience as a financial representative working in financial institutions. Mr. McNally is also a registered investment advisor for MFSC. Additional information can be found in his Supplemental Brochure, which is available upon request.

Prior to leading McNally Financial, Mr. McNally managed the operations of a bank-based broker dealer. He is currently licensed as a General Securities Principal, Series 24; an Introducing Broker Financial & Operations Principal, Series 28; a General Securities Sales Supervisor, Series 8; a Municipal Securities Principal, Series 53; a Registered Options Principal, Series 4; a General Securities Representative, Series 7; an Investment Advisor, Series 65; and a Uniform Securities Agent, Series 63. He is also as an Arbitrator for the FINRA Regulation, Inc., Board of Arbitrators and has previously served as a Small Firm Representative on the District Committee for FINRA District 6.

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Mr. McNally is a Certified Financial Planner® and a General Lines Agent registered with the Texas Department of Insurance for Life, Accident, Health and HMO insurance. He is currently a member of the Financial Planning Association.

## **Barrett O. Schultz - Chief Compliance Officer**

### *Post-Secondary Education:*

University of the Incarnate Word – 2000, M.B.A.

University of Texas at San Antonio – 1998, B.B.A., Finance.

### *Industry-related Experience:*

Mr. Schultz is the Chief Compliance Officer of MFSC. He has been employed by various broker/dealers, a transfer agent, and investment companies during the last 20 years. Mr. Schultz is currently licensed as a General Securities Principal, Series 24; and a General Securities Representative, Series 7.

Both Mr. McNally and Mr. Schultz are actively engaged in the daily operations and management of MFSC. The majority of their time is dedicated to overseeing all aspects of MFSC's activities. Neither Mr. McNally nor Mr. Schultz are involved in any activities or maintain any relationships that would result in an actual or perceived conflict of interest with MFSC's clients, including any issuer of securities.