

**Part 2A of Form ADV: *Firm Brochure***

**MAIN STREET RESEARCH LLC**

30 Liberty Ship Way, Suite 3330  
Sausalito, CA 94965

Telephone: (415) 289-1010

Email: [msr@ms-research.com](mailto:msr@ms-research.com)

Web Address: [www.ms-research.com](http://www.ms-research.com)

03/30/2011

**This brochure provides information about the qualifications and business practices of Main Street Research LLC ("MSR"). If you have any questions about the contents of this brochure, please contact us at (415) 289-1010 or [msr@ms-research.com](mailto:msr@ms-research.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Registration as an investment adviser does not imply a certain level of skill or training.**

**Additional information about MSR is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 114629.**

## **Item 2.      Material Changes**

The SEC adopted “Amendments to Form ADV” in July, 2010. This Firm Brochure, dated 03/30/2011, is our new disclosure document prepared according to the SEC’s new requirements and rules. As you will see, this document is a narrative that is substantially different in form and content, and includes some new information that we were not previously required to disclose.

After our initial filing of this Brochure, this Item will be used to provide our clients with a summary of new and/or updated information. We will inform you of the revision(s) based on the nature of the updated information.

Consistent with the new rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

### Item 3. Table of Contents

Item	Section	Page
1.	Cover Page	1
2.	Material Changes	2
3.	Table of Contents	3
4.	Advisory Business	4
5.	Fees and Compensation	6
6.	Performance-Based Fees and Side-by-Side Management	10
7.	Types of Clients	12
8.	Methods of Analysis, Investment Strategies and Risk of Loss	12
9.	Disciplinary Information	15
10.	Other Financial Industry Activities and Affiliations	15
11.	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	15
12.	Brokerage Practices	18
13.	Review of Accounts	22
14.	Client Referrals and Other Compensation	22
15.	Custody	24
16.	Investment Discretion	25
17.	Voting Client Securities	25
18.	Financial Information	26

## **Item 4. Advisory Business**

MSR is a SEC-registered investment adviser with its principal place of business located in Sausalito, California. MSR has been registered as an investment adviser since 1993. James E. Demmert is the firm's Managing Partner and sole owner.

MSR offers the following services to advisory clients:

- Wealth Management; and
- Consulting.

Please see the disclosure below in this Item for additional information regarding this service.

As of 03/09/2011, we were actively managing \$ 402,771,000 of clients' assets on a discretionary basis and no assets on a non-discretionary basis.

### WEALTH MANAGEMENT

Our Wealth Management service consists of two components: (i) Financial Planning and (ii) Individual Portfolio Management.

#### FINANCIAL PLANNING:

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

In general, the financial plan can address any of the following areas:

- *Personal.* We review family records, budgeting, personal liability, estate information and financial goals.

- *Tax & Cash Flow.* We analyze the client's income tax and spending and planning for past, current and future years and illustrate the impact of various investments on the client's current income tax and future tax liability.
- *Investments.* We analyze investment alternatives and their effect on the client's portfolio.
- *Insurance.* We review existing policies, if applicable, to evaluate life, health, disability, long-term care, liability, home and automobile coverage.
- *Retirement.* We analyze current strategies and investment plans to help the client achieve his or her retirement goals.
- *Death & Disability.* We review the client's cash needs at death, income needs of surviving dependents, and disability income.
- *Estate.* We assist the client in assessing and developing long-term estate planning strategies, including the appropriateness of living trusts, wills, powers of attorney, beneficiary designations, gifts, and asset protection plans.

We gather relevant information through in-depth personal interviews. Information gathered typically includes a client's current financial status, tax status, future goals, return objectives and attitudes towards risk. We carefully review any documents supplied by the client and prepare a written report. Should the client choose to implement the recommendations contained in the plan, we suggest the client work closely with his/her attorney, accountant, and other advisers. Implementation of financial plan recommendations is entirely at the client's discretion.

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

#### INDIVIDUAL PORTFOLIO MANAGEMENT:

We then provide the client with continuous advice regarding the investment of client funds based on the client's individual needs. We will create and manage a portfolio based on a client's goals and objectives as determined through the financial planning process described above, if applicable. During this data-

gathering process, we determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. We may also review and discuss a client's prior investment history, as well as family composition and background.

We currently offer our portfolio management services on a discretionary basis only. Account supervision is guided by the client's stated objectives (e.g., growth, income or a balance between growth and income), as well as tax considerations. Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

Our investment recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. Our client portfolios primarily consist of individual stocks, bonds, real estate investment trusts ("REITs") and exchange-traded funds ("ETFs"). We typically do not include mutual funds in a client's portfolio unless the client already owns them.

#### CONSULTING

We may also provide personal administrative or other special services to clients in addition to our customary Wealth Management service. Consulting recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company.

### **Item 5. Fees and Compensation**

#### FEES FOR WEALTH MANAGEMENT

We offer clients two fee options for our Wealth Management service: a Traditional Fee Schedule and a Performance Fee Schedule. Our Traditional Fee Schedule consists solely of a fee based on a percentage of the amount of assets under management with MSR (a "management fee"). Our Performance Fee Schedule has two fee components: (i) a management fee; and (ii) a performance-based fee that is equal to a percentage of the "net" profit of the client's investment portfolio.

#### TRADITIONAL FEE SCHEDULE:

<u>Assets Under Management</u>	<u>Annual Fee</u>
On the first \$2,000,000	1.25%
The next \$3,000,000	1.00%
The next \$5,000,000	0.75%
Over \$10,000,000	0.50%

Therefore, if a client's account is valued at \$11,000,000, the annual fee would be calculated as follows:  $(\$2,000,000 \times 1.25\%) + (\$3,000,000 \times 1.00\%) + (\$5,000,000 \times 0.75\%) + (\$1,000,000 \times 0.50\%)$ .

Our management fees are assessed quarterly, in advance, at the beginning of each quarter. Thus, clients are charged  $\frac{1}{4}$  of their annual advisory fee each three month period. The fee is based upon the value (market value or fair market value in the absence of market value), of the client's account on the last day of the previous three month period. Fees will be debited from the account in accordance with the client authorization.

#### PERFORMANCE FEE SCHEDULE:

MSR requires that clients electing to pay the Performance Fee Schedule be "qualified clients" as defined in Rule 205-3 of the Investment Advisers Act of 1940. These clients must therefore demonstrate a net worth of at least \$1,500,000 or must have at least \$750,000 under management with MSR.

##### *Management Fee*

<u>Assets Under Management</u>	<u>Annual Fee</u>
On the first \$2,000,000	0.75%
The next \$3,000,000	0.625%
The next \$5,000,000	0.50%
Over \$10,000,000	0.25%

Therefore, if a client's account is valued at \$11,000,000, the annual management fee would be calculated as follows:  $(\$2,000,000 \times 0.75\%) + (\$3,000,000 \times 0.625\%) + (\$5,000,000 \times 0.50\%) + (\$1,000,000 \times 0.25\%)$ .

This management fee is assessed and billed in the same manner as our Traditional Fee.

### *Performance-based Fee*

The annual performance-based fee will, in most circumstances, equal 5% of the net profit (including realized and unrealized gains and losses and net of any additions and withdrawals) in a client account during a given calendar quarter. Clients will be charged the performance fee in arrears at the end of each quarter based upon the value (market value or fair market value in the absence of market value), of the client's account at the end on the last day of the previous three month period. The performance fee will be calculated on the value of the client account after the management fee is assessed and will be debited from the account in accordance with the client authorization.

Our performance fee is subject to a “high watermark.” This means that MSR is only entitled to a performance fee when the quarter-end value of a client’s portfolio exceeds the accounts previous highest quarter-end value. During periods when the investment portfolio declines in value or fails to make a new higher market value, MSR is not entitled to a performance fee.

Clients who elect to terminate their advisory agreements will be charged a fee based on the performance of the account for the measuring period going back from the termination date and pro-rated from the date on which the performance-based fee was last assessed.

This performance-based fee may create an incentive for MSR to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. However, MSR subscribes to managing Traditional Fee and Performance Fee client accounts in a similar fashion. MSR will fully disclose to its clients all material information regarding this method of compensation and its risks prior to entering into the contract.

### MINIMUM ACCOUNT REQUIREMENTS:

A minimum of \$1,000,000 of assets under management is required to open an individual portfolio management account with MSR. This minimum account size may be negotiable in limited circumstances. We may group certain related client accounts for the purposes of achieving the minimum account value requirement. Once an account is accepted, there are no specific minimum account requirements for maintaining an account. Further, there are no minimum fee requirements.



## FEES FOR CONSULTING

MSR's Consulting Fee will be determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client. The fee for such services is charged on hourly basis at a rate of \$400 per hour.

Generally, Consulting fees are due and payable upon completion of the services. Depending on the nature of the consulting engagement, a retainer may be requested upon completion of our fact-finding session with the client. However, advance payment will never exceed \$1,200 for work that will not be completed within six months. The balance will be due upon completion of the service.

There is no minimum fee for consulting services.

## GENERAL FEE INFORMATION

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

***Negotiability of Fees:*** In certain circumstances, all fees may be negotiable. We may also group certain related client accounts for the purposes of determining the annualized fee. Further, we may waive or discount advisory fees for family members and friends of the owner and employees of our firm. These fee waivers or discounts are not generally available to all advisory clients of MSR.

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

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

**Fund Fees:** All fees paid to MSR for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. MSR does not recommend funds that impose sales charges.

A client could invest in a mutual fund or ETF directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which investments are most appropriate to each client's financial condition and objectives. Accordingly, the client should review all fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

**Additional Fees and Expenses:** In addition to our advisory fees, clients are also responsible for the fees and expenses charged by custodians and imposed by broker-dealers, including, but not limited to, any transaction charges, fees for duplicate statements and transaction confirmations, and fees for electronic data feeds and reports. Please refer to Item 12 of this Brochure for additional information about our brokerage practices.

**Limited Prepayment of Fees:** Under no circumstances do we require or solicit payment of fees in excess of \$1,200 more than six months in advance of services rendered.

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

As disclosed in Item 5 of this Brochure, our firm accepts a performance-based fee from clients. Such a performance-based fee is calculated based on a share of capital gains on, or capital appreciation of, the assets of the client. To qualify for a performance-based fee arrangement, a client must either demonstrate a net worth of at least \$1,500,000 or must have at least \$750,000 under management immediately after entering into a management agreement with us.

Clients should be aware that performance-based fee arrangement may create an incentive for us to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee

arrangement. MSR subscribes to managing Traditional Fee and Performance Fee clients in a similar fashion.

Furthermore, since we also have clients who do not pay performance-based fees, we have an incentive to favor accounts that do pay such fees because compensation we receive from these clients is more directly tied to the performance of their accounts. Since we endeavor at all times to put the interest of our clients first as part of our fiduciary duty as a registered investment adviser, we take the following steps to address these conflicts:

- We disclose to clients the existence of all material conflicts of interest, including the potential for our firm and employees to earn more compensation from advisory clients who pay performance-based fees;
- We collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
- Our management conducts regular reviews of each client account to verify that all recommendations made to a client are suitable to that client's needs and circumstances;
- We have implemented policies and procedures for fair and consistent allocation of investment opportunities among all client accounts;
- We periodically compare holdings and performance of all accounts with similar strategies to identify significant performance disparities indicative of possible favorable treatment;
- We periodically review trading frequency and portfolio turnover rates to identify possible patterns of "window dressing," "portfolio churning," or any intent to manipulate trading to boost performance near the reporting period.
- We educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients and equitable treatment of all clients, regardless of the fee arrangement.

Performance-based fees will only be charged in accordance with the provisions of Rule 205-3 of the Investment Advisers Act of 1940 and/or applicable state regulations. Our clients must understand the performance-based fee method of compensation and its risks prior to entering into a management contract with us.

## **Item 7. Types of Clients**

MSR provides its advisory services, where appropriate, to individuals, trusts, estates, charitable organizations, pension and profit sharing plans, corporations and other business entities.

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

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

### METHODS OF ANALYSIS

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

***Fundamental Analysis:*** We attempt to gauge the intrinsic value of securities, industries, sectors, regions and asset classes by looking at economic and financial factors (including traditional measures of valuation, the overall economy, industry conditions, and financial conditions) to determine if a security is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate general market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating a security

***Technical Analysis:*** Technical analysis involves the analysis of past market movements and the application of that analysis to the present in an attempt to recognize recurring patterns of investor behavior and to predict future price movement.

Charting and cyclical analysis are types of technical analysis that we use. Charting involves the review of charts of market and security activity in an

attempt to identify when the market is moving up or down and to predict how long the trend may last and when that trend might reverse. Cyclical analysis involves measuring the movements of a particular security relative to the overall market in an attempt to predict the price movement of the security.

Technical analysis does not consider the underlying financial conditions of a security. This presents a risk in that a poorly-managed or financially unsound investment may underperform regardless of market movement.

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

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

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

## INVESTMENT STRATEGIES

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

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

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

A risk in a long-term purchase strategy is that by holding the 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 decision to sell.

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

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

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

***Asset Allocation:*** In implementing our clients' investment strategy, we begin by attempting to identify an appropriate ratio of equities, fixed-income and cash (i.e. "asset allocation") suitable to the client's investment goals and risk tolerance.

A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market

movements and, if not corrected, will no longer be appropriate for the client's goals.

**Margin:** We do not use margin transactions as an investment strategy. However, we may recommend, where appropriate, that a client establish a margin account with the client's broker. In this situation, if we are selling one stock and purchasing another stock with the proceeds, we can use the margin account to make certain that you are not left out of the purchase if we have difficulty completing the sale.

#### RISK OF LOSS

Securities investments are not guaranteed and you may lose money on your investments. We ask that you work with us to help us understand your tolerance for risk.

### **Item 9. Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. Our firm and our management personnel have no reportable disciplinary events to disclose.

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

Our firm and management persons are not engaged in any other applicable financial industry activities and have no other industry affiliations.

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

#### CODE OF ETHICS

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

fairness and good faith to our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics, but to the general principles that guide the Code.

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

Our Code of Ethics requires that anyone associated with this advisory practice with access to advisory recommendations, client holdings or other specified information ("access persons") provide annual securities holdings reports and quarterly transaction reports of all reportable transactions to the firm's designated officer. These reports are made available to an appropriate regulatory agency upon request and will be reviewed on a regular basis by the Chief Compliance Officer of MSR, or her designee, to supervise compliance with the firm's Code of Ethics.

Our Code also contains oversight, enforcement and recordkeeping provisions. A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by email to [msr@ms-research.com](mailto:msr@ms-research.com), or by telephone at (415) 289-1010.

#### SUMMARY OF PERSONAL TRADING POLICY

Our firm and the individuals associated with our firm may buy or sell securities for their personal accounts that are identical to or different from those recommended to our clients. In addition, the firm and these individuals may have an interest or position in a security which may also be recommended to a client. As these situations represent actual or potential conflicts of interest with our clients, we have taken the following steps to assure that (i) the personal securities transactions of our employees will not interfere with making and implementing decisions in the best interest of our advisory clients, (ii) our firm complies with its regulatory obligations, and (iii) we provide our clients with full and fair disclosure of such conflicts of interest:

- Prohibiting the firm, its owner and employees from:
  - o Putting their own interest above the interest of an advisory client;
  - o Buying or selling securities for their personal portfolio(s) where their decision is a result of information received as a result of his or



her employment unless the information is also available to the investing public.

- Purchasing or selling any security immediately prior to a transaction(s) in the same securities being implemented for an advisory account.
- Our firm requires prior approval for investment by our owner and employees in an initial public offering (IPO), a private placement and certain publicly traded securities.
- We maintain a list of all reportable securities holdings for our firm, our owner and our employees who are access persons. These holdings are reviewed on a regular basis by our firm's Chief Compliance Officer, or her designee, to verify compliance with this personal trading policy.
- We have established procedures for the maintenance of all required books and records.
- We require our owner and employees to act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
- We provide a copy of the Code of Ethics on an annual basis to the owner and employees of our firm.
- We have established policies requiring the reporting of Code of Ethics violations to our Chief Compliance Officer.
- Any individual who violates any of the above restrictions may be subject to termination.

### PRINCIPAL TRANSACTIONS

MSR and individuals associated with our firm are prohibited from engaging in principal transactions. A principal transaction is a transaction where MSR or a person associated with MSR, as principal, buys securities from, or sells securities to, an MSR client.

## Item 12. Brokerage Practices

### BROKERAGE DISCRETION

MSR requests that it be provided in writing with the discretionary authority to determine:

- the broker-dealer to use for client transactions; and
- the commission/transaction costs that will be charged to clients for these transactions.

Any limitations on this discretionary authority shall be included in this written authority statement. Clients may change/amend these limitations as required. Such amendments shall also be submitted in writing.

MSR will endeavor to select those brokers or dealers which will provide the best services at the lowest commission rates possible. The reasonableness of commissions is based on the broker's stability, reputation, ability to provide professional services, competitive commission rates and prices, research, trading platform, and other services which will help MSR in providing investment management services to clients. MSR may, therefore use a broker who provides useful research and securities transaction services even though a lower commission may be charged by a broker who offers no research services and minimal securities transaction assistance. Research services may be useful in servicing all our clients, and not all of such research may be useful for the account for which the particular transaction was effected.

MSR typically uses the brokerage and platform services of Schwab Institutional, a division of Charles Schwab & Co., Inc. ("Schwab"),<sup>1</sup> or TD Ameritrade Institutional, a division of TD Ameritrade Inc. ("TD Ameritrade"),<sup>2</sup> for its advisory accounts. Both Schwab and TD Ameritrade are FINRA<sup>3</sup>-member broker-dealers and SIPC<sup>4</sup> members. Schwab and TD Ameritrade provide MSR with access to their institutional trading and custody services. There is no direct link between our firm's use of these brokerage and platform services and the investment advice we give to our clients. However, we receive economic

---

<sup>1</sup> For information regarding Schwab, please refer to their website: <https://www.schwab.com>.

<sup>2</sup> For information regarding TD Ameritrade, please refer to their website: <http://www.tdameritrade.com>.

<sup>3</sup> FINRA is the largest independent regulator for all securities firms doing business in the United States. For more information regarding FINRA, please refer to their website: <http://www.finra.org>.

<sup>4</sup> For information regarding the SIPC, please refer to their website: <http://www.sipc.org>.

benefits through our participation in these platforms that are typically not available to Schwab or TD Ameritrade retail investors.

These platform services are not contingent upon our firm committing to Schwab or TD Ameritrade any specific amount of business (assets in custody or trading commissions). Schwab's and TD Ameritrade's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For our client accounts maintained in their custody, Schwab and TD Ameritrade generally do not charge separately for custody services but are compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through them or that settle into the accounts.

Schwab and TD Ameritrade also make available other products and services that benefit MSR but may not directly benefit our clients' accounts. Many of these products and services may be used to service all or some substantial number of our client accounts, including accounts not maintained at Schwab or TD Ameritrade. These products and services that assist us in managing and administering our clients' accounts include software and other technology that:

- provide access to client account data (such as trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide research, pricing and other market data;
- facilitate payment of our fees from clients' accounts; and
- assist with back-office functions, recordkeeping and client reporting.

Schwab and TD Ameritrade also offer other services intended to help us manage and further develop our business enterprise. These services may include:

- compliance, legal and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers.

Schwab and TD Ameritrade may make available, arrange and/or pay third-party vendors for the types of services rendered to MSR. Schwab and TD Ameritrade may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to our firm. Schwab and TD Ameritrade may also provide other benefits such as educational events or occasional business entertainment of our personnel.

In evaluating whether to require that clients custody their assets at Schwab or TD Ameritrade, we may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors we consider and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab or TD Ameritrade, which may create a potential conflict of interest.

We have no formal or informal soft dollar arrangements with Schwab or any other broker-dealer. Neither Schwab nor TD Ameritrade provide us with any specific research or brokerage services other than what is otherwise made available by them to the other investment advisers that use their platform services.

#### SUMMARY OF TRADE AGGREGATION POLICY

MSR will aggregate (i.e., block) trades where possible and when advantageous to clients. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts. Block trading may allow us to execute equity trades in a timelier, more equitable manner, at an average share price. MSR will typically aggregate trades among clients whose accounts can be traded at a given broker. MSR's block trading policy and procedures are as follows:

- Transactions for any client account may not be aggregated for execution if the practice is prohibited by or inconsistent with the client's advisory agreement with MSR, or our firm's order allocation policy.
- The portfolio manager must determine that the purchase or sale of the particular security involved is appropriate for the client and consistent with the client's investment objectives and with any investment guidelines or restrictions applicable to the client's account.
- The portfolio manager must reasonably believe that the order aggregation will enable MSR to seek best execution for each client participating in the

aggregated order. This requires a good faith judgment at the time the order is placed for the execution. It does not mean that the determination made in advance of the transaction must always prove to have been correct in the light of a "20-20 hindsight" perspective. Best execution includes the duty to seek the best quality of execution, as well as the best net price.

- Prior to entry of an aggregated order, barring unusual circumstances related to timing and security price, a written list is completed which identifies each client account participating in the order and the proposed allocation of the order, upon completion, to those clients.
- If the order cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day must be allocated randomly among the participating client accounts in accordance with the initial order ticket or other written statement of allocation. However, adjustments to this random allocation may be made to participating client accounts in accordance with the initial order ticket or other written statement of allocation. Furthermore, adjustments to this random allocation may be made due to tax considerations, to avoid having odd amounts of shares held in any client account, or to avoid excessive ticket charges in smaller accounts.
- Generally, each client that participates in the aggregated order must do so at the average price for all separate transactions made to fill the order, and must equitably share in the commissions and transaction costs. Transaction costs may be charged as a fixed, per-trade fee or a fee based on the number of shares traded for each client (depending upon the individual client's agreement with the applicable custodian/broker).
- If the order will be allocated in a manner other than that stated in the initial statement of allocation, a written explanation of the change must be provided to and approved by the Chief Compliance Officer no later than the morning following the execution of the aggregate trade.
- MSR's client account records separately reflect, for each account in which the aggregated transaction occurred, the securities which are held by, and bought and sold for, that account.
- Funds and securities for aggregated orders are clearly identified on MSR's records and to the broker-dealers or other intermediaries handling the transactions, by the appropriate account numbers for each participating client.
- No client or account will be favored over another.

## **Item 13. Review of Accounts**

### WEALTH MANAGEMENT

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

Review of a client's financial plans will typically occur on annual basis or upon client request.

**Reports:** In addition to the monthly statements and confirmations of transactions that clients receive from their broker-dealer/custodian, we provide quarterly reports summarizing account performance, balances and holdings.

Clients who elect to have us provide them financial planning will also receive a completed financial plan. This plan will typically be updated annually or upon client request.

### CONSULTING

These clients will receive reviews and reports as contracted for at the inception of the advisory engagement.

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

It is our policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

Our firm may pay referral fees to independent persons or firms ("Solicitors") for introducing clients to us. Whenever we pay a referral fee, we require the Solicitor to provide the prospective client with a copy of this document (Part 2A of Form ADV: *Firm Brochure*) and a separate disclosure statement that includes the following information:

- the Solicitor's name and relationship with our firm;
- the fact that the Solicitor is being paid a referral fee;
- the amount of the fee; and
- whether the fee paid to us by the client will be increased above our normal fees in order to compensate the Solicitor.

As a matter of firm practice, the advisory fees paid to us by clients referred by solicitors are not increased as a result of any referral.

One firm we have a solicitation relationship with is Schwab. We receive client referrals from Schwab through our participation in the Schwab Advisor Network ("the Service"). The Service is designed to help investors find an independent investment adviser. As mentioned above, Schwab is a FINRA-member broker-dealer independent of and unaffiliated with MSR. Schwab does not supervise MSR and has no responsibility for MSR's management of client portfolios or other advice or services. MSR pays Schwab fees to receive client referrals through the Service.

MSR pays Schwab a "Participation Fee" on all referred clients' accounts that are maintained in custody at Schwab and a "Non-Schwab Custody Fee" on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by MSR is a percentage of the advisory fees the client owes to MSR or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee.

MSR pays Schwab the Participation Fee for as long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to MSR quarterly and may be increased, decreased or waived by Schwab from time to time.

The Participation Fee is paid by MSR and not by the client. MSR has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs MSR charges clients with similar portfolios who were not referred through the Service.

MSR generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from, Schwab. This fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a

one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees MSR generally would pay in a single year. Thus, MSR will have an incentive to recommend that client accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of MSR's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, MSR will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit MSR's fees directly from the accounts.

## **Item 15. Custody**

We previously disclosed in Item 5 of this Brochure that our firm directly debits advisory fees from client accounts. As part of this billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period. Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement.

In addition to the periodic statements that clients receive directly from their custodians, we also send account reports directly to our clients on a quarterly basis. We urge our clients to carefully compare the information provided on these reports to the custodian's statements to ensure that all account transactions, holdings and values are correct and current.



## **Item 16. Investment Discretion**

Clients hire us to provide discretionary portfolio management services. Where we have been provided investment discretion, we place trades in a client's account without obtaining specific client permission prior to each trade. Our discretionary authority includes the ability to do the following without contacting the client:

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

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

## **Item 17. Voting Client Securities**

Advisory clients may elect to delegate their proxy voting authority to us. Alternatively, clients may choose to receive and vote proxies related to their own accounts. In these circumstances, we will consult with clients regarding the proxy vote upon request. With respect to ERISA accounts, we will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies. To direct us to vote a proxy in a particular manner, clients should contact our office by telephone, electronic mail, or in writing.

When we have discretion to vote proxies for our clients, we will vote those proxies in the best interests of our clients and in accordance with our established policies and procedures. Our firm will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by us that was material to making a decision how to vote proxies, and a copy of each written client request for information on how the adviser voted proxies. If our firm has a conflict of interest in voting a particular action, we will notify clients of the conflict and obtain client consent before voting the proxy.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting our office directly. Clients may request, in writing, information on

how proxies for his/her shares were voted. If any client requests a copy of our complete proxy policies and procedures or how we voted proxies for his/her account(s), we will promptly provide such information to the client.

We will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

## **Item 18. Financial Information**

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

As an advisory firm that maintains discretionary authority for client accounts, we are also required to disclose any financial condition that is reasonable likely to impair our ability to meet our contractual obligations. MSR has no additional financial circumstances to report and has never been the subject of a bankruptcy petition.