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## FIRM DISCLOSURE BROCHURE

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November 29, 2011



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### **Disclaimers:**

This brochure provides information about the qualifications and business practices of Klaraos, LLC. If you have any questions about the contents of this brochure, please contact us at (775) 831-5546 or email us at [sydney@klaraos.com](mailto:sydney@klaraos.com). 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 Klaraos, LLC, also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

While Klaraos, LLC, may refer to itself as a "registered investment advisor" or "RIA", clients should be aware that registration does not imply a certain level of skill or training.

### **Material Changes:**

The following are material changes were made to the Form ADV Part 2 since the previous version (dated 11 October 2011):

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS: Expanded descriptions of the roles of related entities.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS: Expanded descriptions of risk factors.

Item 1: Cover Page  
Item 2: Material Changes

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## **Advisory Business**

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### ***Introduction***

Klaraos, LLC, (hereafter, “the Firm”) is a Registered Investment Advisor firm that provides portfolio management services, financial planning, and consulting services. Fees are charged as a function of assets under management, fixed fees, or hourly rates depending on the services engaged. The Firm was formed in 2001 as “M2 Advisors”, and recently in 2008 changed the name to “Klaraos, LLC” or “the Firm”, and is principally held by John J.R. Mueller.

### ***Portfolio Management Services***

The Firm provides Investment Supervisory Services, defined as giving continuous advice to a client or making investments for a client based on the individual needs of the client. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, the Firm develops a client's personal investment policy and creates and manages a portfolio based on that policy.

The Firm manages advisory accounts on a discretionary and nondiscretionary basis. The Firm primarily seeks to manage Client accounts on a discretionary basis, but will also offer non-discretionary management services to those Clients that choose to enter their own transactions. As of March 31, 2011, the Firm managed client assets of \$18,000,000 on a discretionary basis, and \$6,000,000 on a non-discretionary basis, rounded to the nearest \$100,000. Account supervision is guided by the stated objectives of the client (i.e., maximum capital appreciation, growth, income, or growth and income).

The Firm creates portfolios consisting of one or all of the following investment types: equity securities that are exchange listed or from foreign issuers, corporate debt securities other than commercial paper, certificates of deposits, municipal securities, US government securities, mutual fund shares, variable life insurance and annuities, options contracts on securities, exchange traded funds, and investment partnerships that invest in real estate or oil and gas interests. Additionally, the Firm will place clients into private placement securities, after reviewing the placement opportunity with said client. Recommendations for new investments will typically be limited to those items identified in this paragraph.

The Firm allocates the client's assets among various investments taking into consideration the overall management style selected by the client. Investment advice may be provided on investments such as limited partnerships and private placement partnerships in hedge funds, off-shore funds and other Regulation-D offerings. These types of investment recommendations will only be made when consistent with the client's stated risk tolerance and investment goals, and whether the client is an accredited investor. Investment advice may be offered on any investments held by a client at the start of the advisory relationship.

The securities mentioned above reflect a broad range of investment risk, including some securities that entail high degrees of risk, such as stock options. Private placement offerings also involve a high degree of risk that may not be suitable for the average investor.

Portfolio weighting between funds and market sectors will be determined by each client's individual needs and circumstances. Clients will have the opportunity to place reasonable restrictions on the types of investments, which will be made on the client's behalf. Clients will retain individual ownership of all securities.

When appropriate to the needs of the client, the Firm may recommend the use of short sales, margin transactions, or option writing. Because these investment strategies involve certain additional degrees of risk, they will only be recommended when consistent with the client's stated tolerance for risk.

### **Discretionary Portfolio Management**

For discretionary accounts, the Client will grant the Firm limited trading authority (discretionary authority) in the Client's brokerage account by executing the appropriate documents with the Client's broker-dealer/custodian. The discretionary authority will allow the Firm to enter securities transactions on the Client's behalf, determining which securities and the amount of securities to buy or sell. Clients will be notified of all transactions by trade confirmations from their broker-dealer/custodian and through communication with the Firm. 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 be submitted in writing.

The Firm will also request the Client provide written authorization to allow the Firm to automatically deduct its advisory fee from the Client's account (discussed at greater length in the "FEES AND COMPENSATION" section of this FIRM BROCHURE); however, the Firm will not have the authority to make any other withdrawals from the Client's account(s) under management.

### **Non-Discretionary Portfolio Management**

For non-discretionary accounts, the Firm will prepare securities recommendations as it does for discretionary accounts, but will provide these recommendations to the Client directly so that the Client may enter the transaction on their own.

Since the Firm merely recommends securities transactions for non-discretionary accounts, Clients should take measures to ensure that recommendations are executed in a timely fashion and should review their account(s) to ensure that transactions were entered properly.

### **Private Placements**

Private placements involve additional degrees of risk that may not be suitable for the average investor, and will only be recommended when consistent with the Client's stated tolerance for risk. Investments in private placements are often speculative and involve substantial risks of the loss of the entire investment. Private placements generally target specific areas of industry investment, are often illiquid and difficult to value, may lack a secondary market, and may or may not be appropriate for diversification purposes. Private placements may also carry additional business risks such as competition, uncertainty in the operational nature of the industry, difficulty in performing the activities of the business, changes in laws, litigation and other external factors. Specific additional risks of any private placement are included in the Private Placement Memorandum of the respective investment.

As discussed at greater length in the “FEES AND COMPENSATION” section of this firm brochure, private placements are subject to a different set of fees than general portfolio management.

As discussed at greater length in the “OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS” section of this Firm brochure, when appropriate a Client may be solicited into a private placement where in a related party relationship exists. In most cases, a private placement offering will not have independent management, and will rely on the manager and its affiliates for the results of operations.

These relationships and conflicts of interest are disclosed to the Client before investment can be made, and the Client is under no obligation to make any investment in any private placement offer. In accordance with Nevada securities law, all solicitations for new investors into private placement limited partnerships may only be made through a registered agent of the issuer.

### ***Third Party Money Manager Monitoring***

Third party money manager monitoring is a service that the Firm provides to clients that desire us to oversee their current money manager, but not engage the Firm to manage their portfolio directly. The primary focus of this service is to help the client understand the manager's style of investing, the risks and rewards of that style and then track that manager identifying when the manager strays from that style.

### ***Financial Planning Services***

Clients purchasing this service will receive a written financial plan, providing the client with a detailed financial plan designed to achieve their stated financial goals and objectives.

In general, the financial plan will address any or all of the following areas of concern:

- **PERSONAL:** Family records, budgeting, personal liability, estate information and financial goals.
- **TAX & CASH FLOW:** Income tax and spending analysis and planning for past, current and future years. KLARAOS will illustrate the impact of various investments on a client's current income tax and future tax liability.
- **DEATH & DISABILITY:** Cash needs at death, income needs of surviving dependents, estate planning and disability income analysis.
- **RETIREMENT:** Analysis of current strategies and investment plans to help the client achieve his or her retirement goals.
- **INVESTMENTS:** Analysis of investment alternatives and their effect on a client's portfolio.
- **ESTATE AND INCOME TAXES:** Analysis of current and future strategies to minimize and mitigate taxes.

Item 4: Advisory Business

The Firm gathers required information through in-depth personal interviews. Information gathered includes a client's current financial status, future goals and attitudes towards risk. Related documents supplied by the client are carefully reviewed, including a questionnaire completed by the client, and a written report is prepared. Should a client choose to implement the recommendations contained in the plan the Firm suggests to the client, the Firm works closely with his/her attorney, accountant, insurance agent, and/or stockbroker. Implementation of financial plan recommendations is entirely at the client's discretion.

The Firm may make a recommendation, which may indirectly or directly provide a benefit to the Firm. In all such cases, a client will be furnished a statement declaring that a conflict of interest exists, but the client is under no obligation to act upon the recommendation and if the client elects to act on the recommendation, the client is under no obligation to effect the transaction through the Firm.

### ***Consulting Services***

Clients can also receive investment advice on a more limited basis. This may include advice on only an isolated area(s) of concern such as estate planning, retirement planning, divorce planning, or any other specific topic. The Firm also provides specific consultation and administrative services regarding investment and financial concerns of the client.

Additionally, the Firm provides advice on non-securities matters. Generally, this is in connection with the rendering of estate planning, insurance, and/or annuity advice.

## **Fees and Compensation**

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### ***Management Fee for Portfolio Management Services***

The fees for Portfolio Management Services, other than private placements, will be charged in one of two ways. Either as a function of a percentage of assets under management (Asset Based) or as a percentage of asset appreciation (Performance Based).

#### **Asset Based Management Fees**

Asset Based management fees are based on a percentage of assets under management, and are deducted from the client's assets on a quarterly basis, according to the schedule below:

Up to \$1,000,000	1.25% per annum
\$1,000,001 to \$2,500,000	1.25% per annum
\$2,500,001 to \$5,000,000	1.25% per annum
\$5,000,001 to \$7,500,000	1.25% per annum
\$7,500,001 to \$10,000,000	1.25% per annum
\$10,000,001 to \$15,000,000	1.25% per annum
More than \$15,000,000	Negotiable

Item 4: Advisory Business  
Item 5: Fees and Compensation

### **Performance Based Management Fees**

Performance Based management fees are based on a percentage of asset appreciation. The established percentage of the increase to be charged as a fee will be 20%. If the performance is negative, no performance fees are due.

Clients will be invoiced in arrears at the end of each calendar quarter based upon the value (market value or fair market value in the absence of market value, plus any credit balance or minus any debit balance), of the client's fee, at the beginning of any calendar quarter since the establishment of the account before the calculation of fees.

Notice for California clients: The performance fee will only be charged in accordance with the provisions of California Code of Regulations Section 260.234

### **Private Placement Fees**

For private placements, the Firm receives a 1-3% placement fee for funds committed to Private Placement Investment Companies managed by Klaraos Ventures, LLC, as further described in the private placement memorandum of the respective investment. Klaraos Ventures is managed by Klaraos, LLC. This fee is deducted from the funds invested shortly after placed, directly to Klaraos Ventures, LLC and is fully disclosed to all investors.

In addition, there is a 1-3% yearly management fee paid on a monthly or quarterly basis, as described in the private placement memorandum of the respective investment. This fee is calculated based on the balance of the individual clients' capital accounts at the end of the reporting period.

### ***Third Party Money Manager Monitoring Fees***

The Firm will be paid for Money Manager Monitoring by billing the client directly a percentage of the client's assets (1.25%) managed by the monitored money manager other than the Firm. Under this scenario, the Firm will bill the client quarterly in arrears.

Any information relating to the third party money manager such as their management fee is disclosed in that independent investment adviser's disclosure document (Part II of Form ADV or other disclosure document in lieu of Part II).

### ***Financial Planning Fees***

Financial planning fees will be charged in one or both of the two ways listed below:

1. As a fixed fee per quarter, typically ranging from \$2,000 to \$4,000, depending on the nature and complexity of each client's circumstances and upon mutual agreement with the client. 50% of this fee may be due upon signing the financial planning agreement, with the balance due upon presentation of the plan to the client; AND/OR
2. On an hourly basis, ranging from \$225 to \$350 per hour, depending on the nature and complexity of each client's circumstances and upon mutual agreement with the client. An estimate for total hours will be determined at the start of the advisory relationship. 50% of the estimated fee may be due upon signing the advisory agreement, with the balance (based on actual hours) due upon presentation of the plan to the client. Unconsumed portions may be returned to the client at the end of the advisory contract relationship.

Item 5: Fees and Compensation

Typically the financial plan will be presented to the client within 90 days of the contract date, provided that all information needed to prepare the financial plan has been promptly provided by the client.

### ***Consulting Fees***

Consulting fees will be charged on an hourly basis, ranging from \$200 to \$400 per hour, depending on the nature and complexity of each client's circumstances and upon mutual agreement with the client. Consulting fees shall be billed and payable as incurred.

### ***General Information on Fees and Disclosures***

In certain circumstances, all the Firm's fees and account minimums may be negotiable. A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days written notice. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

The Firm does not provide any "wrap programs" (programs that bundle brokerage and advisory services under a single comprehensive fee) so all securities recommended by the Firm may include additional transaction charges by the client's broker-dealer/custodian separate from the Firm's advisory fees.

All fees paid to the Firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds 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. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without the services of the Firm. In that case, the client would not receive the services provided by the Firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and the fees charged by the Firm to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

Client is advised that lower fees for comparable services may be available from other sources.

### ***Performance-Based Fees and Side-By-Side Management***

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The Firm accepts performance-based fees based on a share of capital gains on or capital appreciation of the assets of clients that have engaged our portfolio management services under this type of fee arrangement.

The Firm manages accounts that are charged performance-based fees and accounts that are charged another type of fee, such as asset-based fees or fixed fees (side-by-side management). As a result, conflicts of interest exist, wherein the Firm has an incentive to favor accounts for which the Firm receives a performance-based fee.

Item 5: Fees and Compensation

Item 6: Performance-Based Fees and Side-By-Side Management

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Additionally, performance-based compensation may create an incentive for the Firm to recommend an investment that may carry a higher degree of risk to the Client. The Firm addresses this conflict of interest in section 7 of Performance Management Agreement

Performance-based fees are calculated as described in the “FEES AND COMPENSATION” section of this Brochure, under the subsection “Performance Based Management Fees”.

## **Types of Clients**

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Most of the Firm’s clients are wealthy individuals and families. Many have maintained accounts with the Firm for many years. The Firm also manages portfolios and provides investment advice for estates, corporations, pension plans, charitable foundations, trusts, and funds of funds.

While other services are not subject to account minimums, the minimum account size for portfolio management services is \$200,000.00. Under certain circumstances, this account minimum may be negotiable.

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

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### ***Portfolio Management Services***

For Portfolio Management Services, the Firm uses fundamental and technical analysis to determine the investments in a given portfolio.

In its fundamental analysis, the Firm seeks to determine the intrinsic value of equities based on a thorough analysis of the fundamental business factors of the given stock(s) at issue. This includes: analysis of financial statements, earnings, dividends, management structure, competitive advantages, product offerings, competitors and markets. In essence, this method of analysis evaluates the overall condition of the company (or companies in a mutual fund or ETF) to determine whether it is a sound investment. Despite the fundamental analysis performed by the Firm, any investment in securities carries market risk and investors may lose their principal investment.

In its technical analysis, the Firm seeks to determine the future direction of prices through the study of past market data, primarily price and volume. This is done by charting the movement of investments to identify trends and patterns used in the selection of securities to purchase and price points to buy and sell. The Firm uses a number of stock screeners, Elliott Wave analysis, and other software to chart and analyze the movement of various investments. Despite the technical analysis performed by the Firm, any investment in securities carries market risk and investors may lose their principal investment.

The investment strategies used will vary depending on the Client’s financial goals and risk tolerance. Generally, Clients seeking capital preservation with limited risk will be managed with passive strategies using fixed income products (e.g. bonds) and index funds whereas Clients seeking growth with greater risk will be managed with active strategies using stocks, mutual funds, ETFs, and stock options.

Item 6: Performance-Based Fees and Side-By-Side Management

Item 7: Types of Clients

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

While the Firm will not engage in day-trading, active strategies may entail additional risk due to a greater frequency in transactions, which may involve additional brokerage fees, transaction costs, and taxes. Also, strategies that use options may entail additional risk as losses may exceed those seen in the underlying stock.

There can be no assurance that the objectives associated with any portfolio management strategy will be met. The Firm, at any time, may add, remove or modify any of the strategies it employs and this includes any of the significant investment strategies discussed above. These investments, methods and strategies involve risk of loss to clients and clients must be prepared to bear the loss of their entire investment. The material risks associated with the Firm's method of analysis for all strategies may include, without limitation:

### **Programming and Modeling Error Risk**

The models used by the Firm in its strategies rely on complex formulas, proprietary and third party data sources, and are based largely upon using the Firm's years of experience in individual stock selection to identify what the Firm believes to be the important characteristics of valuation as well as other unidentified factors. As a result, any errors in the underlying formulas, data entry, database or the assumptions underlying the models may result in a portfolio acquiring or selling investments based on incorrect information. Additionally, data entry made by the Firm's internal team of financial analysts may contain errors, as may the database system used to store such data. When models and data prove to be incorrect, misleading, flawed or incomplete, any decisions made in reliance thereon expose clients to potential risks. For example, by relying on models and data, the Firm may be induced to recommend or buy certain investments at prices that are too high, to sell certain other investments at prices that are too low, or to miss favorable opportunities altogether. Similarly, any hedging based on faulty models and data may prove to be unsuccessful. As a result, the portfolio could incur losses on such investments before the errors are identified and corrected.

The Firm's research and modeling process is extremely complex and the results of that process must then be translated onto spreadsheets and computer code. Although the Firm seeks to hire individuals skilled in each of these functions and to provide appropriate levels of oversight, the complexity of the individual tasks, the difficulty of integrating such tasks, and the limited ability to perform "real world" testing of the end product raises the chances that the finished model may contain an error; one or more of such errors could adversely affect a client's portfolio and likely would not constitute a trade error under the Firm's policies.

All models rely on correct market data inputs. If incorrect market data is entered into even a well-founded model, the resulting valuations will be incorrect. However, even if market data is input correctly, "model prices" will often differ substantially from market prices, especially for securities with complex characteristics, such as derivative securities.

### **Operational Risk**

The Firm has developed systems and procedures to control operational risk. Operational risks arising from mistakes made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or other similar disruption in the Firm's operations may cause the Firm to suffer financial loss; the disruption of its business; liability to clients or third parties; regulatory intervention; or reputational damage. The Firm relies heavily on its financial, accounting and other data processing systems.

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The ability of its systems to accommodate an increasing volume of transactions could also constrain the Firm's ability to properly manage a client's portfolio.

### **Accuracy of Public Information Risk**

The Firm selects investments, in part, on the basis of information and data filed by issuers with various government regulators or made publicly available by the issuers or through sources other than the issuers. Although the Firm evaluates this information and data and ordinarily seeks independent corroboration as appropriate and reasonably available, the Firm is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases complete and accurate information is not available.

### **Private Placement Risk**

Strategies that include private placement offerings entail greater risk as these offerings have limited regulatory oversight. Investments in private placements are often speculative and involve substantial risks of the loss of the entire investment. Private placements generally target specific areas of industry investment, are often illiquid and difficult to value, may lack a secondary market, and may or may not be appropriate for diversification purposes. Private placements may also carry additional business risks such as competition, uncertainty in the operational nature of the industry, difficulty in performing the activities of the business, changes in laws, litigation and other external factors. An investment in a private placement is suitable only for those persons who can bear the economic risk of the loss of their investment and who have limited need for liquidity in their investment. Investors in a private partnership who are subject to income tax should be aware that the investment in the partnership might create taxable income or tax liabilities in excess of cash distributions to pay such liabilities. Specific additional risks of any private placement are included in the Private Placement Memorandum of the respective investment.

The terms and conditions applicable to private placement offerings advised by the Firm may vary. Investors in one investment vehicle may pay different fees and other charges, and may not have the same liquidity or redemption options as investors in other investment vehicles. Due to the inherent structure of private partnerships, beneficial owners of separately managed accounts generally receive more information, including transparent portfolio holdings, and have more favorable liquidity and termination rights as compared with investors in private partnerships.

### **Systems Risk**

The Firm relies extensively on computer programs and systems to select securities for purchase or sale, trade, clear and settle securities transactions, to evaluate certain securities based on real-time trading information, to monitor its portfolio, and to generate risk management and other reports that are critical to oversight of its activities. In addition, certain systems operated by third parties, including the Firm's prime brokers and market counterparties and their sub-custodians and other service providers, may not be in a position to verify the risks or reliability of such third-party systems. These programs or systems may be subject to certain defects, failures or interruptions, including, but not limited to, those caused by computer "worms," viruses and power failures. Any such defect or failure could have a material adverse effect on the Firm's activities. For example, such failures could cause settlement of trades to fail, lead to inaccurate accounting, recording or processing of trades, and cause inaccurate reports, which may affect Firm's ability to monitor its investment portfolios and its risks.

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### **Obsolescence Risk**

The Firm's strategies are unlikely to be successful unless the assumptions underlying the models used to implement those strategies are realistic and either remain realistic and relevant in the future or are adjusted to account for changes in the overall market environment. If and to the extent that the models do not reflect certain factors, and the Firm does not successfully address such omission through its testing and evaluation and modify the models accordingly, major losses may result. The Firm will continue to test, evaluate and add new models, as a result of which the existing models may be modified from time to time. There can be no assurance as to the effects (positive or negative) of any modification on a client's portfolio.

### **Illiquid Investments Risk**

While the Firm anticipates that it will invest in securities with relatively high liquidity, due to changes occurring after the initial investment, it may be impossible for the Firm to liquidate some or all of its investments when desired or to realize their fair value in the event of such liquidation. In addition, the Firm may not be able to quickly liquidate all of its positions due to trading volume and liquidity that can disappear in certain securities or more generally in the market.

### **Equity Securities Risk**

Stock markets are volatile. The price of equity securities fluctuates based on changes in a company's financial condition and overall market and economic conditions.

### **Portfolio Turnover Risk**

Stock markets are volatile. The price of equity securities fluctuates based on changes in a company's financial condition and overall market and economic conditions.

### **Concentration /Non-Diversification Risk**

Certain portfolios may be concentrated in only a few industries, countries or geographic regions, or may be concentrated in other ways. This investment strategy could expose investors to greater risk than if the portfolios were to diversify its investments.

### **Sector Focus Risk**

A portfolio may be more heavily invested in certain sectors, which may cause the value of the portfolio's shares to be especially sensitive to factors and economic risks that specifically affect those sectors. This may cause the value of the portfolio to fluctuate more widely than a comparative benchmark.

### **Market Risk**

The market value of a security may fluctuate, sometimes rapidly and unpredictably. The prices of securities change in response to many factors, including the historical and prospective earnings of the issuer, the value of its assets, general economic conditions, interest rates, investor perceptions and market liquidity.

### ***Money Manager Monitoring Services***

Money Manager Monitoring clients should refer to the independent registered investment adviser's disclosure document for information on the methods of analysis, sources of

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information, and investment strategies that independent registered investment adviser uses in managing client portfolios. The Firm employs a strategy of analyzing the performance of third-party money managers, and providing the results and recommendations to the Client.

### ***Financial Planning Services***

For Financial Planning Services, the Firm analyzes the Client's financial goals and objectives, income and spending, savings and investments, risks and insurance needs, asset allocation, and tax implications. This analysis seeks to ensure that the Client's needs are addressed while making progress toward their financial goals and objectives.

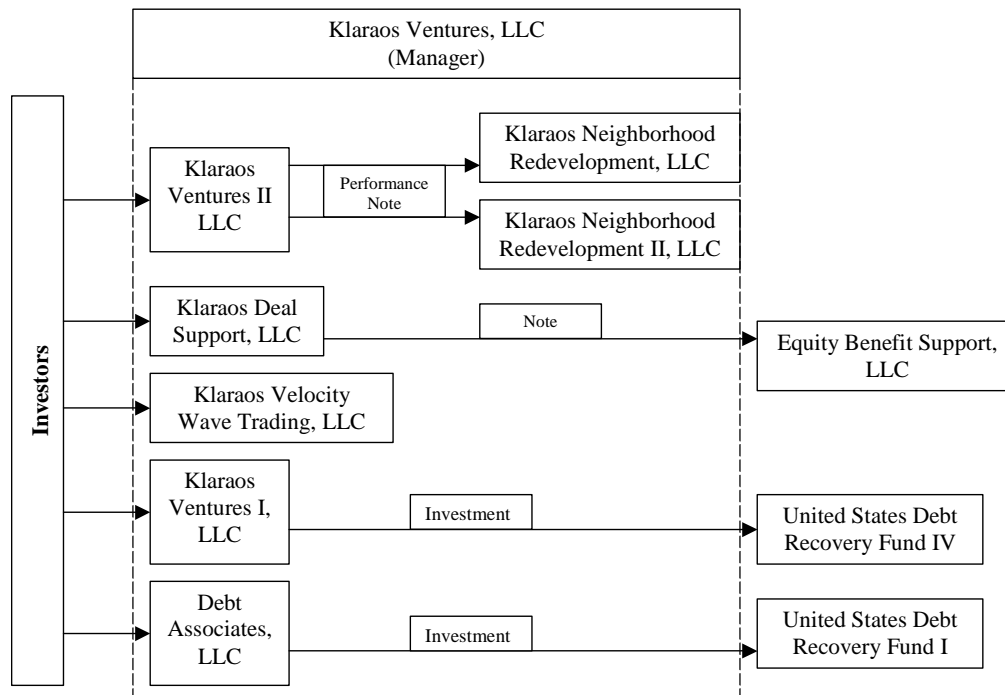
## **Disciplinary Information**

There are no disclosures to make in this category.

## **Other Financial Industry Activities and Affiliations**

The Firm has a pending application to register as a commodity pool operator. Should this application be approved, this brochure will be amended and redistributed before any Clients can be advised about commodity or futures related transactions or investment opportunities.

The Firm has arrangements that are material to its advisory business and its clients with related investment companies in which Clients are solicited to invest in a private placement arrangement; and with companies that conduct operations with Client monies to generate a return.



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

Item 9: Disciplinary Information

Item 10: Other Financial Industry Activities and Affiliations

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## **Management Entity**

Klaraos Ventures, LLC, (hereafter “KV”) is held by the Firm, and is a venture holding company and acts as the managing member of all affiliated investment and operating limited liability companies. Advisory clients are not solicited to invest or otherwise be involved with KV. For its management role of related investment companies, KV receives an annual and/or placement management fee for all investor funds committed, as disclosed in the “FEES AND COMPENSATION” section of this brochure and in the investment company’s respective PPM. KV does not receive a fee for its management of related operating companies. KV acts in management duties, and maintains custody of these investor funds. The disbursement of any funds not directly invested into the pre-selected investment fund requires the approval of an independent third party CPA. This independent, third party CPA approves all funds to be disbursed for proper operating expenses on behalf of the investors of, as well as the disbursement of funds back to the investors upon the return of their investments.

## **Investment Companies**

The following investment companies are all managed by KV, and accordingly are related parties under common control material to the advisory services provided to the client.

Debt Associates, LLC, (hereafter, “DA”) is a Nevada limited liability company organized December 2008 under the Nevada Uniform Limited Liability Company Act that raises funds for investment into United States Debt Recovery Fund I, LLC, (hereafter, “USDR I”) a distressed debt investment company. Investors are solicited to invest in DA, who then provides the funds to USDR I to purchase claims on bankruptcy assets. DA is closed to new investment, and no new investors or investment funds may be placed into this investment company.

Klaraos Ventures I, LLC, (hereafter, “KVI”) is a Nevada limited liability company organized September 2009 under the Nevada Uniform Limited Liability Company Act that raises funds for investment into United States Debt Recovery Fund IV LLC, (hereafter, “USDR IV”) a distressed debt investment company. Investors are solicited to invest in KVI, who then provides the funds to USDR IV to purchase claims on bankruptcy assets. KVI is closed to new investment, and no new investors or investment funds may be placed into this investment company.

Klaraos Ventures II, LLC, (hereafter, “KVII”) is a Nevada limited liability company organized February 2010 under the Nevada Uniform Limited Liability Company Act that raises investor funds to lend on an unsecured performance note to two operating companies that purchase residential real estate at foreclosure auction and re-sells the homes for a profit. In accordance with Nevada securities law, all solicitations for new investors into KVII may only be made through Geoff Zahler as a registered agent of the issuer.

Klaraos Deal Support, LLC, (hereafter, “KDS”) is a Nevada limited liability company organized August 2011 under the Nevada Uniform Limited Liability Company Act. KDS was formed for the primary purpose of providing working capital to investor purchasers of foreclosed and distressed residential property that will not be secured by first deeds of trust, but through Lines of Credit documents that provide appropriate safe guards and will also, on a select basis, function as a Lender for the purpose of making and arranging primary single use residential loans to the general public and refinancing existing residential loans, all of which are or will be secured by deeds of trust and mortgages on real estate throughout the United States.

A strict focus will be adhered to conservative loan-to-value characteristics. The LLC may also, on a select basis, provide residential mixed use financing. In accordance with Nevada securities law, all solicitations for new investors into KDS may only be made through Geoff Zahler as a registered agent of the issuer.

Klaraos Velocity Wave Trading, LLC, (hereafter, “KVW”) is a Nevada limited liability company organized February 2011 under the Nevada Uniform Limited Liability Company Act that raises investor funds to invest in commodities and futures as a pooled investment vehicle. The Firm is currently pursuing registration as a commodity pool operator. Until sufficient registration is completed, no investors or investment funds may be placed into this investment company. In accordance with Nevada securities law, all solicitations for new investors into KVW may only be made through Martina Hulten as a registered agent of the issuer.

### **Operating Companies**

The following operating companies are all managed by KV, and accordingly are related parties under common control material to the advisory services provided to the client. No investment is solicited into any of these operating companies.

Klaraos Neighborhood Redevelopment, LLC, (hereafter, “KNR”) is a series Nevada limited liability company organized March 2010 under the Nevada Uniform Limited Liability Company Act that receives monies from KVII and purchases residential real estate at foreclosure auction and re-sells the homes for a profit. KNR makes all purchases outright, and does not split ownership or use debt or any other form of leverage to make the purchases. Profits from the re-sell are returned to KVII. KNR is managed by KV without fee.

Klaraos Neighborhood Redevelopment II, LLC, (hereafter, “KNRII”) is a series Nevada limited liability company organized October 2010 under the Nevada Uniform Limited Liability Company Act that receives monies from KVII and purchases residential real estate at foreclosure auction and re-sells the homes for a profit. KNRII makes all purchases outright, and does not split ownership or use debt or any other form of leverage to make the purchases. Profits from the re-sell are returned to KVII. KNR is managed by KV without fee.

### **Other Affiliations**

John Mueller is related to one of the general partners in United States Debt Recovery, Inc., and WJ Investments, LLC, who are the investment managers and advisors of USDR I and USDR IV. Client and Non-Client Investors are made aware of the relationship prior to any investment being made, are aware that the investment made does indirectly influence the Firm, and have given consent to the relationship. Investments into funds managed by United States Debt Recovery were made through the investment companies Debt Associates and Klaraos Ventures I. No additional investment in these investment companies is being solicited, nor is the Firm continuing to advise clients to invest in United States Debt Recovery.

Equity Benefit Support, LLC, (hereafter, “EBS”) is a Nevada limited liability company that borrows monies from KDS and purchases residential real estate at foreclosure auction and re-sells the homes for a profit. As part of the arrangement with KDS, KV serves in the role as the investment advisor of EBS, but is not the manager of EBS and does not participate in solicitations for investment into EBS.

Item 10: Other Financial Industry Activities and Affiliations

Klaraos Consulting, LLC, is a is a Nevada limited liability company organized January 2009 under the Nevada Uniform Limited Liability Company Act that performs financial and divorce consulting services. This entity does not perform investment advisory services, and is not open to investment. John Mueller is the primary owner of the LLC, and accordingly, this company is a related party under common control.

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

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### ***Code of Ethics***

Pursuant to SEC Rule 204A-1, Sample Advisor has a Code of Ethics that promotes the fiduciary duty of the Firm and its IA Reps. The Code of Ethics articulates the importance of trust as a foundation to the relationship between an investment adviser and its Clients and establishes policies and procedures to ensure that the Firm and its IA Reps place the interests of the Clients first. The Code of Ethics requires that the Firm and its IA Reps adhere to all applicable securities and related laws and regulations. The Code of Ethics also requires the Firm and its IA Reps follow industry “best practices” involving: confidential information, suitability of investments, personal trading on the part of the Firm and its IA Reps, outside business activities of IA Reps, and the disclosure of conflicts of interest.

A copy of the Firm’s Code of Ethics is available upon request.

### ***Participation or Interest in Client Transactions and Personal Transactions***

The Firm or individuals associated may buy or sell securities identical to those recommended to customers for their personal accounts. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client.

It is the expressed policy of the Firm that no person employed may purchase or sell any security prior to a transaction(s) being implemented for an advisory account, and therefore, preventing such employees from benefiting from transactions placed on behalf of advisory accounts.

As these situations represent a conflict of interest, the Firm has established the following restrictions in order to ensure its fiduciary responsibilities:

1. Officers and/or employee of the Firm shall not buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public on reasonable inquiry. No person of the Firm shall prefer his or her own interest to that of the advisory client.
2. The Firm maintains a list of all securities holdings for itself, and anyone associated with this advisory practice with access to advisory recommendations. The President and/or Compliance officer of the Firm review these holdings on a regular basis.
3. All clients are fully informed that certain individuals may receive separate compensation when effecting transactions during the implementation process.

Item 10: Other Financial Industry Activities and Affiliations

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

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4. Klaraos emphasizes the unrestricted right of the client to decline to implement any advice rendered, except in situations where Klaraos is granted discretionary authority of the client's account.
5. Klaraos requires that all individuals must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
6. Any individual not in observance of the above may be subject to termination.

## **Brokerage Practices**

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The Firm does not have the discretionary authority to determine the broker dealer to be used or the commission rates to be paid, but does recommend the use of TD Ameritrade as broker-dealer/custodian. When directing the specific use of a broker dealer it should be understood that the Firm will not have authority to negotiate commissions or obtain volume discounts, and best execution may not be achieved. In addition, a disparity in commission charges may exist between the commissions charged to other clients.

When the Firm does recommend the use of a specific broker dealer, provided such recommendation is consistent with the Firm's fiduciary duty to the client, the Clients must evaluate these brokers before opening an account.

The factors considered by the Firm when making this recommendation are the broker's ability to provide professional services, the Firm's experience with the broker, the broker's reputation, and the broker's quality of execution services and costs of such services, among other factors.

Clients are not under any obligation to effect trades through any recommended broker. While not a factor in the Firm's recommendation of TD Ameritrade, TD Ameritrade does offer proprietary research tools and publications created by TD Ameritrade to their account holders. The Firm will have access to these research tools and publications, which may be considered "soft dollar benefits" and constitute a conflict of interest. As the Firm has accounts at TD Ameritrade, the benefits of the research tools and publications are already available to the Firm regardless of the Client's decision to invest with TD Ameritrade. The Firm will use TD Ameritrade's research tools and publications to service all Advisory Clients regardless of the broker-dealer/custodian they choose to use, but Clients who invest with TD Ameritrade will also have their own access to the research tools and publications as TD Ameritrade account holders. Again, Clients have no obligation to use TD Ameritrade for their broker-dealer and custodian.

## **Review of Accounts**

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### ***Portfolio Management Services***

While the underlying securities within the Portfolio Management service client accounts are continuously monitored, these accounts will be formally reviewed at least quarterly by John Mueller (President) of the Firm. 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.

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

Item 12: Brokerage Practices

Item 13: Review of Accounts

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Portfolio review and management consists of a dynamic and tactical discipline that is driven by the stages of the business and credit cycles. As current macro conditions change, the Firm maintains the flexibility of allocating through prosperous conditions as well as protect our clients' financial world during periods of asset destruction. Our discipline is not one of passive allocation; rather, it is a tactical discipline that allows allocation of investments according to the most beneficial investment themes. This includes layers of our combination of fundamental and technical analysis to validate the most prosperous investing themes to construct your ideal portfolio. Other key factors that play into our analysis and portfolio construction are equities, bonds, currencies, commodities, foreign markets, and private placement investments. Significant changes to any of these factors and technical metric will trigger a review of the account.

In addition to the monthly statements and confirmations of transactions that Portfolio Management clients receive from their broker dealer, the Firm will provide written quarterly reports to clients consisting of positions, balances, additions/withdrawals, real and unrealized gains and losses, cost-basis information, and interest/dividend information.

### ***Financial Planning Services and Consulting Services***

These client accounts will be reviewed as contracted for at the inception of the advisory relationship. In most cases, these reports will be written.

### ***Third-Party Money Manager Monitoring Services***

Third party money manager monitoring is a service that the Firm provides to Clients that desire us to oversee their current money manager, but not engage the Firm to manage their portfolio. The primary focus of this service is to help the Client understand the manager's style of investing, the risks and rewards of that style and then track that manager identifying when the manager strays from that style.

These Client accounts should refer to the third party independent registered investment adviser's disclosure document for information regarding the nature and frequency of reports provided by that independent registered investment adviser. The Firm will provide these Client accounts with written reports as contracted for at the inception of the advisory relationship.

## **Client Referrals and Other Compensation**

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The Firm currently does not have an arrangement for receiving compensation for referring clients to other advisers or other investments not under the Firm's supervision, but may, with full disclosure, adopt such an arrangement in the future to serve the interest of clients. The Firm will only refer advisers that are licensed as investment advisers or investment adviser representatives.

The Firm currently does not have an arrangement for paying compensation for receiving client referrals from other advisers, but may, adopt such an arrangement in the future. Clients may not negotiate this compensation, but Clients will not be charged any higher fees when referred by a third party than when engaging the Firm directly. The Firm will only compensate financial professionals that are licensed as investment advisers or investment adviser representatives or demonstrate some exemption from licensing.

Item 13: Review of Accounts  
Item 14: Client Referrals and Other Compensation

## **Custody**

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For Portfolio Management Services that do not include private placements, Clients will engage an independent broker-dealer and custodian to maintain their accounts and so the Firm will not have physical custody of Clients' assets, monies, or securities. However, since the Firm may withdraw advisory fees directly from Clients' accounts (as described in the "FEES AND COMPENSATION" section of this Brochure), and may invest Client accounts in a discretionary manner, the Firm is considered to have custody in a limited capacity. Again, this custody is due solely to the direct withdrawal of fees and discretionary management, and does not entail all of the same legal and regulatory requirements as an investment adviser with physical custody of Clients' assets, monies, or securities. Clients will receive account statements from their broker-dealer and custodian and should carefully review those statements. Clients will also receive account statements from the Firm, and Clients should compare the accounts statements they receive from the broker-dealer and custodian with those received from the Firm.

For private placement investments managed by Klaraos Ventures, LLC (as described in the "OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS" section of this Brochure), the Firm will have physical custody of Clients' assets, monies, or securities.

## **Investment Discretion**

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As described in the "ADVISORY BUSINESS" section of this Brochure, the Firm will have investment discretion for those Advisory Clients that elect Discretionary Portfolio Management Services. Clients will select this option specifically in the Firm's Investment Advisory Agreement and will sign a trading authorization form with their broker-dealer/custodian.

When Advisory Clients grant discretionary authority to the Firm, Clients may still place restrictions on the Firm, such as a prohibition on investing in specific securities, industries, or markets that the Client chooses. Such restrictions must be included on the Management Agreement. Even if granted, discretionary authority shall not extend to include investments in any private placement in which the Firm has a relationship described in described in the "OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS" section of this Brochure, and new investments must be specifically approved by the Client.

## **Voting Client Securities**

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For any security that entails a voting right in the underlying company, the Firm will not have or accept authority to vote Client securities. All voting issues, proxies, and solicitations will be communicated to Advisory Clients through the Client's broker-dealer/custodian. Upon request, however, the Firm may help explain or answer questions regarding a given voting issue.

Item 15: Custody  
Item 16: Investment Discretion  
Item 17: Voting Client Securities

## Financial Information

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The Firm is required to disclose certain financial information because it has discretionary authority and custody of client funds. In addition, California securities law requires the Firm maintain certain minimum equity balances. The Firm, and its principal owner, is not the subject of any financial condition that would, or is likely to, impair the Firm's ability to meet contractual commitments to clients.

The following balance sheet has not yet been audited. The Firm has engaged an independent certified public account to audit the balance sheet. Once the audit is complete, this Brochure will be amended to reflect the audited balance sheet, the qualifications of the independent public accountant, and the accountant's report conforming to Article 2 of SEC Regulation S-X.

Balance Sheet of Klaraos, LLC, as of December 31, 2010 (unaudited)

### Assets

Cash and cash equivalents	\$	8,329
Fixed assets, net of accumulated depreciation		<u>45,134</u>
Total assets	\$	<u><u>53,463</u></u>

### Liabilities and shareholder's equity

Common stock	\$	5,765
Retained earnings		<u>47,698</u>
Total liabilities and shareholder's equity	\$	<u><u>53,463</u></u>

Balance sheet is prepared in accordance with principles generally accepted in the United States of America. Accumulated depreciation presented is \$15,606.

## Requirements for State-Registered Advisers

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The Firm has two executive officers and management persons, John J.R. Mueller and Geoffrey Scott Zahler. Their biographical information is given on their respective attached BROCHURE SUPPLEMENT document.

Under the "OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS" section of this Brochure, the Firm solicits investment into investment companies managed by a related entity. This activity and the conflicts of interests associated are described more fully in that section.

John J.R. Mueller, president of the Firm, is a licensed certified public accountant with the Nevada State Board of Accountancy. The Firm does not provide traditional public accounting services including compilation or attestation of financial statements, or preparation of tax returns; however, the Firm does provide financial consulting services that do not fall under the definition of investment advisory services.

Item 18: Financial Information  
Item 19: Requirements for State-Registered Advisers

Under the “PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT” section of this Brochure, the Firm receives performance-based fees, which may create an incentive for the Firm to recommend an investment that may carry a higher degree of risk to the Client. The calculation of this fee, and the conflicts of interests associated are described more fully in that section.