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## BROCHURE SUPPLEMENT

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John J.R. Mueller

Geoffrey Scott Zahler

May 2, 2011



Klaraos, LLC  
917 Tahoe Boulevard, Suite 204  
Incline Village, NV 89451  
(775) 831-5546  
[www.Klaraos.com](http://www.Klaraos.com)

### **Purpose of the Brochure Supplement:**

This brochure supplement provides information about John J.R. Mueller and Geoffrey Scott Zahler that supplements the Klaraos, LLC, brochure. You should have received a copy of that brochure. If you did not receive Klaraos, LLC's brochure, or if you have any questions about the contents of this brochure supplement, please contact us at (775) 831-5546 or email us at [sydney@klaraos.com](mailto:sydney@klaraos.com).

Additional information about John J.R. Mueller and/or Geoffrey Scott Zahler is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

### **Disclaimer:**

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.

## **Educational Background and Business Experience**

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***John J. Robert Mueller***

BORN: 02/08/1966

### **EDUCATION**

Graduated with a BA/BS in Accounting and Finance from St. Louis University in 1988.  
Graduated with an MBA from St. Louis University in 1992.

### **EMPLOYMENT HISTORY**

President & Director of Klaraos, LLC. from 01/09 to Present.

President & Director of M2 Advisors, Inc. from 09/01 to Present.

President & Director of M2, LLC from 01/01 to 12/07.

Member of M2 Ventures, LLC from 09/01 to Present.

Member of Snowbear, LLC from 04/00 to 08/01/2003.

Registered Representative of Walnut Street Securities, Inc. from 07/00 to 08/01/2003.

Investment Adviser Representative of Walnut Street Advisors, Inc. from 10/00 to 08/01/2003.

Director of Acquisition Partners, Inc. from 06/99 to 03/00.

Director for Aquasource, Inc. from 10/98 to 05/99.

Director of ITEQ Inc. from 05/98 to 09/98.

Director of American Oncology Resources from 07/95 to 04/98.

Senior Associate of Coopers & Lybrand LLP from 01/93 to 06/95.

### **PROFESSIONAL DESIGNATIONS**

Certified Public Accountant, licensed by the Nevada State Board of Accountancy. Designation as a Certified Public Accountant requires meeting specific minimum education requirements, principally in business and accountancy, passing a uniform examination, and performing sufficient hours of public accounting work supervised by a licensee. Maintaining the designation generally requires 80 hours of continuing education in general areas (such as management) and specific technical areas (such as taxation) every two years.

***Geoffrey Scott Zahler***

BORN: 01/26/1981

### **EDUCATION**

Graduated with a BS in Finance and Entrepreneurship from University of Arizona in 2004.  
Graduated with an MBA from University of Nevada, Reno in 2009.

### **EMPLOYMENT HISTORY**

Klaraso, LLC – Incline Village, Nevada - Investment Adviser Representative, 2008 to Current

Alpine International Realty – Incline Village, Nevada – Realtor, 2011 to Current  
Coldwell Banker Incline Village Realty – Incline Village, Nevada – Realtor, 2006 - 2011  
Zahler Enterprises, Inc. – Incline Village, Nevada - Vice President, 2004 - 2008  
Dickson Realty - Incline Village, Nevada – Realtor, 2004 - 2006  
Allstate Insurance – Northbrook, Illinois - Procurement Governance Department, 2003  
Scottrade - Tucson, Arizona – Intern, 2002 - 2003  
Morgan Stanley – Santa Monica, California – Intern, summers of 2002 and 2001

## **PROFESSIONAL DESIGNATIONS**

Real Estate Agent, licensed by the Nevada Board of Realtors. Designation as a Real Estate Agent requires passing the state real estate exam along with maintaining continuing education every 2 years.

## **Disciplinary Information**

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This is nothing to report in this section.

## **Other Business Activities**

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Geoffrey Scott Zahler is a registered Agent of the Issuer for Klaraos Ventures II, LLC (hereafter, KVII), an investment company that Clients are solicited for investment. Mr. Zahler does not receive compensation for investments solicited into KVII, but performs activities related to the management of KVII though the manager of the investment company, Klaraos Ventures, LLC (hereafter, KV). KV is managed by Klaraos, LLC (hereafter, the Firm). The activities and the related conflicts of interest of the Firm, KV, and KVII are described more fully in the “OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS” section of the Firm’s Brochure.

John J. Robert Mueller has an application pending to register for a series 3 license and to become a part of the NFA and comply with the CFTC

## **Additional Compensation**

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Neither John J.R. Mueller or Geoffrey Scott Zahler receive any additional compensation from non-clients for providing advisory services. All client advisory service fees are paid directly to the Firm.

## **Supervision**

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As president of Klaraos, LLC, John J.R. Mueller is primarily responsible for supervision of the Firm and investment advisor representatives. As Mr. Mueller is an investment advisor representative himself, his accounts are also reviewed by the Geoffrey Scoot Zahler. All financial plan recommendations are reviewed by both Mr. Mueller before the financial plan is complete. For portfolio management recommendations, Mr. Mueller and Mr. Zahler review all

recommended transactions at the end of each day. Both Mr. Mueller and Mr. Zahler also review accounts as a whole each quarter in conjunction with the calculation of advisory fees. Advisory clients may contact either John J.R. Mueller or Geoffrey Scott Zahler directly.

John J.R. Mueller, president ..... (775) 831-5546

Geoffrey Scott Zahler, investment advisor representative..... (775) 831-5546

### **Requirements for State-Registered Advisers**

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The Firm would be required to disclose additional information for Mr. Mueller and Mr. Zahler if either had ever been the subject of a bankruptcy petition or ever been found liable in either: (a) an arbitration; or (b) a civil, self-regulatory organization, or administrative proceeding. As none of these apply to either Mr. Mueller or Mr. Zahler, the Firm has no information to disclose in this regard.

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## FIRM DISCLOSURE BROCHURE

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May 2, 2011



Klaraos, LLC  
917 Tahoe Boulevard, Suite 204  
Incline Village, NV 89451  
(775) 831-5546  
[www.Klaraos.com](http://www.Klaraos.com)

### **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:**

No material changes were made to the Form ADV Part 2 since the previous amended version (dated 28 February 2010).

Item 1: Cover Page  
Item 2: Material Changes

Form ADV Part 2A: Firm Brochure  
Version Date: May 2, 2011  
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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 Sample Advisor 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. Private placements generally target specific areas of industry investment, and may or may not be appropriate for diversification purposes. 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.

Item 4: Advisory Business



These relationships 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 Klaraos Ventures II, LLC, may only be made through Geoffrey Scott Zahler as 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.

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.

Item 4: Advisory Business

### ***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

#### **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.

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

Item 4: Advisory Business  
Item 5: Fees and Compensation

### **Private Placement Fees**

For private placements, the Firm receives a 5% placement fee for funds committed to Private Placement Investment Companies managed by Klaraos Ventures, LLC. 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% yearly management fee paid on a quarterly basis. This fee is calculated based on the balance of the individual clients' capital accounts at the end of each quarter.

### ***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.

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.

Item 5: Fees and Compensation

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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.

California Code of Regulations Section 230.238(j) disclosure: 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. 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.

Item 5: Fees and Compensation  
Item 6: Performance-Based Fees and Side-By-Side Management  
Item 7: Types of Clients

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.

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. Lastly, strategies that include private placement offerings entail greater risk as these offerings have limited regulatory oversight, have less liquidity, and depend on the due diligence of the investor or investment adviser.

### ***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 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.

Item 7: Types of Clients

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

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### ***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**

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There are no disclosures to make in this category.

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

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The Firm has a pending application to register as a commodity-trading advisor. 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.

The principal owner of the Firm is also the officer and managing member of Klaraos Ventures, LLC, (hereafter "KV"), a venture capital holding company. KV primarily purchases, holds and divests ownership interests in other business entities. Advisory Clients will not be solicited to invest or otherwise be involved with KV, or any of the business interest KV holds. The role of KV is to act as the managing member for other limited partnerships Clients may be solicited into. For its management, KV receives an annual management fee of 1% for all funds committed, paid quarterly.

KV is the manager for Debt Associates, LLC (hereafter DA), Klaraos Ventures I, LLC (hereafter KVI), and Klaraos Ventures II, LLC (hereafter KVII), which receive investments from both client and non-client investors. 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 DA, KVI and KVII, as well as the disbursement of funds back to the investors upon the return of their investments.

Debt Associates & Klaraos Ventures, I, LLC are entities that raise a fund of money for funding a private placement opportunity that purchases claims on bankruptcy assets. The name of the fund that Debt Associates is funding is United States Debt Recovery, I. KVI is funding is United States Debt Recovery, IV. USDR purchases these claims on assets and holds the claims until maturity or negotiated settlement. Both Debt Associates and Klaraos Ventures I are closed to new investment, and no new investors or investment funds may be placed in those investment companies.

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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KV has engaged a CPA firm regularly inspected by Public Company Accounting Oversight Board (PCAOB) to audit the investment companies, perform the required surprise examination of the fund, and prepare an internal control report.

Klaraos Ventures, II, LLC, is an entity that purchases residential real estate at foreclosure auction and re-sells the homes for a profit. The name of the fund that Klaraos Ventures II, LLC is funding is Klaraos Neighborhood Redevelopment (KNR) and Klaraos Neighborhood Redevelopment II (KNRII). Both KNR and KNRII are managed by KV, without fee.

In accordance with Nevada securities law, all solicitations for new investors into Klaraos Ventures II may only be made through Geoffrey Scott Zahler as a registered agent of the issuer.

The Firm is the manager of Klaraos Ventures, LLC. Klaraos Ventures, LLC, is the manager for Debt Associates, LLC, Klaraos Ventures I, LLC, Klaraos Ventures II, LLC, Klaraos Neighborhood Redevelopment, LLC, and Klaraos Neighborhood Redevelopment II, LLC. These investment companies are related parties under common control material to the advisory services provided to the client.

The Firm is related to one of the general partners in United States Debt Recovery, a fund that is discussed. 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 relation. Investments into 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.

## **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.

Item 10: Other Financial Industry Activities and Affiliations  
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

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.
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.

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 directly.

Item 12: Brokerage Practices  
Item 13: Review of Accounts

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.

## **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.

Item 13: Review of Accounts  
Item 14: Client Referrals and Other Compensation  
Item 15: Custody

## **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 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.

## **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 accountant 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.

Item 16: Investment Discretion  
Item 17: Voting Client Securities  
Item 18: Financial Information

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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>53,463</u>

**Liabilities and shareholder's equity**

Common stock	\$	5,765
Retained earnings		<u>47,698</u>
Total liabilities and shareholder's equity	\$	<u>53,463</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 the 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. The fees for these services are charged in accordance with the policies for financial planning or consulting, as appropriate, and at the regular rates for financial planning or consulting, as previously disclosed in the "FEES AND COMPENSATION" section of this Brochure.

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.