

**Item 1 Cover Page**

# The Hedrick Co.

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March 31<sup>st</sup>, 2011

This brochure provides information about the qualifications and business practices of The Hedrick Co. If you have any questions about the contents of this brochure, please contact us at 206-232-8807. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Additional information about The Hedrick Co. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 Summary of Material Changes**

The Securities and Exchange Commission (SEC) adopted “Amendments to Form ADV” in July 2010. This Firm Brochure, dated March 31, 2011, is our new disclosure document prepared according to the new requirements and rules.

After our initial filing of this Brochure, this Item will be used to provide our clients with a summary of new and/or updated information. Consistent with the new rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business fiscal year.

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## Item 4 Advisory Business

The Hedrick Co., founded by Betty Hedrick CFP®<sup>1</sup> in June 1986, is a fee only, Registered Investment Adviser<sup>2</sup> that specializes in financial planning and investment management for individuals, family groups and small businesses.

The company is 100% owned by Betty and Gary Hedrick. Please see Part 2B Brochure Supplement on page 21.

### Services

#### Financial Planning

There are three critical tools necessary for living: health, relationships (includes values/faith) and finances. We help our clients manage their financial lives in such a way as to meet personal aspirations. Financial planning is an ongoing process of

- analyzing personal, family and business circumstances;
- strategizing;
- Implementing, monitoring and revising the strategy as life events progress.

These activities may involve tax and cash-flow management, investment evaluation, retirement planning, career or business planning, insurance reviews, education planning, and other areas of financial concerns as requested by clients.

#### Investment Management

As of March 31, 2011 we manage accounts totaling approximately \$31,471,000, all on a discretionary basis.

Your portfolio is individually customized, you may impose restrictions on investing in certain securities, types of securities or industry sectors.

We do not sponsor any wrap-fee programs. (Transaction commissions are bundled into the Advisory fees in wrap-fee programs).

The Hedrick Co. is separate from the custodian. We are paid with investment management fees; the custodian is paid with transaction commissions.

Investment decisions are independently generated by The Hedrick Co. and not limited to any specific product or service offered by any broker-dealer or insurance company. Securities purchased are not limited to a specific type of security.

Further explanation of our investment philosophy and methods are in Item 8 on page 7.

#### Scope of Client Services

Your needs and desires determine the scope of our work. We are beginning a relationship that involves ongoing communication and adjustments of financial arrangements to enhance your journey through life.

<sup>1</sup>Definition Certified Financial Planner The CERTIFIED FINANCIAL PLANNER™, CFP® and federally registered CFP (with flame design) marks (collectively, the “CFP® marks”) are professional certification marks granted in the United States by Certified Financial Planner Board of Standards, Inc. (“CFP Board”). Complete information is in footnote 1 of brochure supplement page

<sup>2</sup>Registered Investment Adviser (RIA) shows only that the firm is registered with the Securities Exchange Commission or Washington State and thereby subject to regulations and audits. The term does not carry any connotations of education, expertise in any area. Maintaining registration as an investment adviser does not require any continuing education or proof of skills.

## Item 5 Fees and Compensation

Investment Management Fees are based on the account values on the last day of each calendar quarter, in arrears and according to the following schedule:

First	\$ 500,000	0.25% per quarter (annualized 1%)
Second	\$ 500,000	0.20% per quarter (annualized 8/10 of 1%)
From	\$1,000,000.01 to \$3,000,000	0.1875% per quarter (annualized 3/4 of 1%)
From	\$3,000,000.01 to \$5,000,000	0.1563% per quarter (annualized 5/8 of 1%)
Over	\$5,000,000	0.125 per quarter (annualized 1/2 of 1%)

The fees are cumulative, that is, each family group pays .25% for the first half million, .20% for the second half million, and so on. When multiple family members have accounts, all accounts may be grouped for purposes of billing.

We reserve the right to negotiate other fee schedules in situations that warrant special consideration. We do not offer alternative fee schedules for the purpose of keeping or obtaining a client; we value our clients and we strive to treat our clients equally and fairly. However, on rare occasions, circumstances surrounding a family may warrant higher or lower fees based on the complexity or simplicity of the services we provide that family. We reserve the right to waive or reduce fees, at adviser's sole discretion, for clients belonging to one of the following groups: family members, non-profit associations and employees. Waiver of fees is not available to all clients within the categories listed.

Clients may choose whether to pay by invoice or by The Hedrick Co. deducting the fees directly from their accounts.

Investment accounts are subject to other fees charged by the custodian, specific securities or others. Transaction fees apply to all stocks, ETFs, closed-end mutual funds, REITS and ADRs and some mutual funds. In addition, administrative and money management fees are built into mutual funds. Fixed income securities include markups by the seller. ADRs may be subject to deductions for foreign taxes and sponsor fees. These fees vary according to the event.

The Hedrick Co. does not receive any portion of any fee charged by the third parties mentioned above. None of our compensation is attributable to the purchase or sale of any security.

Betty Hedrick is licensed to sell life, disability and long term care insurance. During the last fiscal year, insurance sales represented less than 1% of gross revenues.

## Hourly Fee Schedule

Consulting	\$185 / hour
Portfolio Management Clients Reduced Rate	\$135 / hour
Research Support Services	\$ 80 / hour

Ongoing portfolio management is not available under the hourly fee schedule. The investment Advisory fee schedule allows portfolio management clients to share in covering the due-diligence and research costs of managing portfolios. If we provided ongoing portfolio management on an hourly basis, those clients would be receiving services either paid for by our other clients or would be paying us hourly fees far and above the cost benefit of managing a portfolio.

We do volunteer work assisting individuals and groups in budgeting and debt reduction, at the sole discretion of adviser.

We do not compensate any person or business for referrals.

## Item 6 Performance-Based Fees & Side-by-Side Management

The Hedrick Co. does not charge performance-based fees. A performance-based fee is any type of Advisory fee calculated as a percentage of capital gains or appreciation in the client's account.

Side-by-side management refers to managing accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as an hourly or flat fee. Side-by-side management arrangements present a conflict of interest. There is a built in incentive to favor accounts that pay performance-based fee.

Since we do not charge any performance-based fees, The Hedrick Co. does not have any side-by-side management.

## Item 7 Types of Clients

The Hedrick Co. works with individuals, families, trusts, estates, businesses, employer defined contribution plan and non-profit organizations.

We do not have any minimum net worth or account size requirements.

## Item 8 Methods of Analysis, Investment Strategies & Risk of Loss

There are three types of financial risk: Systemic, Systematic, and Entity risk.

Systemic risk describes total collapse of one or more major financial systems.

Systematic risk is uncertainty associated with aggregate market returns across one or more asset/liability classes, certain industries, countries or the entire global economy. It is impossible to protect against global events, but we can mitigate the other levels by diversification.

Entity risk refers to vulnerabilities of just one company, municipality or a small group.

## Types of Systematic Risk and Risk-Mitigating Strategies

**Inflation Risk** is that the real return on a security may be less than the increases in cost of living.

**Strategy:** Purchase securities that have historically outpaced inflation including equities and real estate.

**Interest Rate Risk** is often confused with inflation risk. Many investments change in value when interest rates change. Interest Rate risk is the name for this value fluctuation. The most significant fluctuation is in fixed income, but certain industries are also especially vulnerable.

**Strategy:** Purchasing staggering maturities of bonds helps stabilize yield. As long as bonds mature periodically, we are able to access funds to purchase better yield when prevailing rates are rising. When rates are declining, we still have other bonds that will pay higher rates.

**Currency Risk** is the fluctuation in value of each country's currency relative to other countries. While it is considered systematic risk, it must also be included in entity risk. Domestic companies often have significant revenues or expenses from other countries. The degree of exposure and methods used to manage the risk are important considerations in analyzing investment potential.

**Strategy:** Prevailing interest rates are often reflected in the exchange rate, so one way of diversifying among currencies is to invest in bonds of foreign countries. We use mutual funds and ETFs to accomplish this. Mutual funds and ETFs provide broad diversification; plus have large teams of research analysts, and resources to obtain more in-depth information than we can. We do not use individual foreign bonds.

Analyzing potential exchange rate risk is part of our analysis of domestic industries and U.S. companies.

Finally, international equities provide a level of currency diversification.

**Risk from changes in laws, regulations, taxes and international trade agreements** generally affect several industries or even the entire economy.

**Strategy:** We mitigate by diversifying among industries, geographical locations and types of assets. Every category in the portfolio design can be affected, but not equally and not to every change. The area we can best manage is federal tax planning. There is an abundance of investment vehicles claiming to take advantage of certain tax situations. Some are based on clear language and proven cases. Others are based on interpretations of IRS code language that is not as clear. The Hedrick Co. strives to use only vehicles that belong to the first group, to carefully consider the possible loss of liquidity and anticipate the possible reactions in market value if the tax advantage goes away.

**Sovereign Risk** is the possibility that a foreign government will default on its loan, fail to honor other business commitments or change national policies affecting business operations.

**Strategy:** General global diversification reduces exposure to any one country. There are insurance policies sometimes used by large corporations, mutual funds and ETFs. We often focus on companies with multi-country interests when we purchase ADRs (American Depositary Receipts).

## Types of Entity Risk

Note: Strategies for all Entity Risks at the end of this section.

**Credit Risk** is the possibility of a borrower failing to pay its debt. It affects bond investors directly. Shareholders also accept credit risk. Even without bankruptcy a stock price could decline to a fraction of a cent per share. Debt to assets and debt to earnings ratios have significant impact on the book value and on the market value.

**Operations Risk** entails all aspects of a business, including quality of overall management, efficient use of resources, successful growth plans, effective positioning in the marketplace, consistent source of operating capital and strong financial management. Corporate culture, integrity and internal controls are also key factors.

**Litigation Risk** is largely shareholder class actions but also patent/copyright actions, as it relates to investment analysis.

**Geographical Risk** is systematic. It is worth noting, however, that smaller localities can affect just one or two companies within an industry by tax or environmental policies or by the condition of local infrastructure and transportation.

**Product Risk** includes product liability issues, competition landscape, continued usefulness etc.

**Liquidity Risk** is present when something could prevent us from converting an investment to cash at face value within 90 days. Liquidity risk also describes marketability risk.

**Marketability Risk** is the risk of not being able to sell a security at a fair market value when we are ready to sell. It is more commonly called liquidity risk. Bid-Offer spread refers to the difference between what a buyer is willing to pay and a seller is willing to accept.

## Strategies for Entity Risk

Diversification is even more powerful in managing entity risk than it is for controlling systematic risk. We invest in a variety of industries, and several companies within each industry in which we have chosen to have significant investments.

Successful money management is predicated on successful analysis of value, opportunity and risk. Deciding how to interpret financial statements and how much weight to assign various items is key to finding companies with investment potential.

The most publicized methods of measuring investment potential are the Capital Asset Pricing Model (CAPM) developed by William Sharpe and the Implied Cost of Equity Model (ICEM) developed by James A. Ohlson and Beate E. Juettner-Nauroth. There are many variations of CAPM and ICEM. CAPM calculates the risk premium built into market prices. ICEM relates price to expected earnings and growth in expected earnings.

The Hedrick Co. subscribes to multiple sources of data. Much of it is pure corporate data, industry statistics and published economic indicators. We also subscribe to trade media where analysts discuss their opinions and projections. Many of these use CAPM, ICEM or variations of them.



However, we prefer cost of credit analysis combined with free cash flow, cost of capital, and return on invested capital, in our own analysis of individual securities. Cost of capital is determined by company fundamentals including cash flows, sales, taxes, cost of goods sold, volatility of cash flows, overhead, credit, insurance, yield spreads, potential for lawsuits and others. In addition, The Hedrick Co. subscribes to Audit Integrity which looks at a large collection of metrics including accounting methods to gauge probabilities of financial restatement, shareholder litigation, potential financial distress and notable changes compared to the company's own history and to its peer industry group.

The price of a stock is comprised of company fundamentals, market conditions and investor perceptions. Market perception and company fundamentals are both important in evaluating investment opportunities. When selecting individual stocks we weigh the company fundamentals more heavily than market perception, but we always consider both.

Technical analysis is another way to determine value of companies for investment purposes. The underlying philosophy is that relevant fundamental factors are already reflected in the price of the stock. The technical analyst studies price movements, volume, trends and patterns, which are revealed by charting these factors, and attempts to assess the possible effect of current market action on future supply and demand for the companies' stock. We always look at the technical indicators, but the drivers of our investment decisions are primarily fundamental.

We use moneymarket accounts, short-term CDs, bonds with near-term maturity dates to ensure desired liquidity.

We use only securities traded on public stock exchanges.

We use limit orders to safeguard against wide spreads.

When we purchase securities with lower trading volume, we do so only for very long-term positions and for securities we will not have to sell quickly.

In the case of mutual funds, we use only those funds that are available through Schwab or other major brokerage companies. It is not a guarantee, but it does assure us that multiple groups of experienced parties are performing due diligence.

## Forms of Securities

Different types of securities present different opportunities and risks.

**Individual Bonds** provide income with the future promise of returning the face value. Interest payments can be fixed or vary according to a named benchmark. The payment frequency is typically semi-annually, but can also be set as monthly, quarterly, annually or even deferred until maturity (known as zero coupon). The interest can be taxable or tax-free depending on the issuer. The first investors or agents that purchase the bond are directly lending money to the issuer. Most of our purchases are on the secondary market where we are actually buying the loan that the initial investor already made. If we buy the bond below the face value, the difference between the amount received at maturity and the purchase price is usually subject to capital gains.

**Bond Mutual funds** are pools of money combined for the purpose of hiring investment managers to buy and sell bonds. Buyers of mutual funds are buying an ownership share of the pool. They can

be tax-free or taxable and the income payments are disbursed from the pool to shareholders as dividends. There is no maturity date for bond mutual funds. We have to sell at market value (for closed-end funds) or net asset value (for open-end funds). These values fluctuate inversely to interest rates - rising rates cause lower market values and declining rates increase the value. We use bond mutual funds, but rarely as a significant portion of client portfolios.

Bond mutual funds diversify among issuers, duration and geographically. Diversification can increase opportunity and mitigate risk.

**All mutual funds** are just a vehicle for pooling money to invest. Giving up maturity dates is the only unique variable to bond funds when comparing mutual funds to individual securities of any type. There are mutual funds that invest in common stock, preferred stock, REITS, UITs, derivatives or other securities either solely, or in combination.

Income and realized capital gains are passed through to shareholders at least annually. The distributions are segregated into qualified dividends, tax-free dividends, non-qualified dividends, short-term gains and long-term gains according to the source. The distributions are subject to income tax each year.

With **open-ended funds**, purchases and sales of fund shares take place between investors and the fund company. There is no limit to the number of shares the fund can issue; as more investors buy into the fund, more shares are issued. Federal regulations require a daily valuation process, called marking to market, which subsequently adjusts the fund's per-share price to reflect changes in portfolio (asset) value. The number of shares outstanding does not affect the value of the individual's shares.

Actively managed open-end funds are subject to redemption risk. Open-end funds are those that the mutual fund company buys back at net asset value whenever a shareholder wants to sell. Therefore, they have to keep some cash on hand and have to sell securities to meet redemptions at inopportune times. When liquidations are significant, the ability to maintain returns is compromised. Since every sale results in a capital gain or loss, the shareholders have to accept the tax consequences on sales driven by other shareholders demands for liquidating their position.

**Closed-End Funds** - These funds issue only a specific number of shares and do not issue new shares as investor demand grows. Prices are not determined by the net asset value (NAV) of the fund, but are driven by investor demand. Purchases of shares are often made at a premium or discount to NAV. Closed end funds are not subject to redemption risk because they are not obligated to purchase back any shares.

Mutual funds may be broadly diversified or specialized. They may be actively managed or passive, in which case the holdings are purchased to replicate a specified index and only adjusted if the components of the index change. Passively managed funds are called index funds; the holdings mimic a specified index. Index funds give us the opportunity to invest in the whole market or a specified segment of the market on a buy and hold basis.

The cost of holding mutual funds is higher than holding individual stocks and bonds. The fund families must pay investment management fees, transaction costs and operating costs.

**Individual Stocks or Bonds and American Depositary Receipts (ADRs).** Require more money

and multiple purchases to achieve diversification. Taxable dividends and interest are taxable the year they are received. But individual stockholders are able to consider tax implications when selling stocks. It creates more flexibility and control over managing taxes.

**ETFs**, exchange traded funds, are organized under the same laws as mutual funds and are similar to closed-end mutual funds. Closed-end funds have been in existence much longer. The first ETF was created in 1993. Until very recently, all ETFs were passive holdings emulating a specified index. Now they can be actively managed or tied to an index. Because there is no redemption risk, ETFs tend to be more tax efficient than open-end mutual funds. ETFs and closed-end mutual funds seem to be interchangeable, but they are still considered separate forms in regulatory and tax language. The investment managers never have to sell positions in order to meet redemption demand. Different sectors, such as ETFs that invest in commodities, REITS or precious metals are often subject to other provisions of the tax code. The result can be a less favorable tax treatment. In traditional bond and stocks ETFs, if all other considerations are equal, an ETF is often the better choice in taxable accounts.

**REIT** stands for real estate investment trust and **UIT** stands for unit investment trust. The tax rules are the same for both. Essentially, they are corporations that own and manage a portfolio of real estate properties and mortgages. They are sold to investors in units or shares. Like mutual funds, each unit represents a proportionate fraction of ownership in each of the underlying properties. These investment vehicles constitute approximately 10% of the financial sector and nearly one-quarter of the domestic equity sector. We trade only in publicly exchange traded REITS.

**UITs**, like REITs, fall under the same federal and state tax rules as corporations but UITs are not required to have any real estate investments; they can hold most any type of security. The primary tax distinction between REITs and UITs and mutual funds is that the operating costs of mutual funds are not deducted from dividends and gains. A REIT or UIT prospectus has financial statements like a corporation, showing itemized expenses and net cash flow, the taxable income passed through to shareholders is the net income of the trust. A mutual fund must pass through all dividends and capital gains in the form of distributions and the operating costs are paid out of the mutual fund but are not expensed or deducted from the distributions.

**Annuity** – refers to life insurance policies designed as investment vehicles. Annuities are tax deferred and can be purchased with pre-tax money in retirement accounts or with after tax funds (called non-qualified annuities). Withdrawals before age 59 ½ are subject to a 10% tax penalty. Each withdrawal is considered part return of principal and part taxable income. In qualified annuities, the return of principal is taxable income because the investment was made with pre-tax dollars. In a non-qualified annuity, only the earnings portions of the withdrawals are taxable.

There are two basic types: **Fixed annuities** are like savings accounts. The insurance company pays interest at a declared rate that automatically reinvests itself. The rates are usually guaranteed for an initial period ranging from one to five years and then reset annually. There is also a lifetime guaranteed minimum rate. The deposits into annuities are called premiums; administrative and mortality fees are deducted from the premium and then the balance is used to calculate the interest payments. The premiums can usually be paid as a single payment, monthly, or annually.

The second type is the **variable annuity**. The premium less the deducted expenses is invested in mutual funds chosen by the investor.

Annuities can be immediate or deferred. Immediate means the investor has chosen to immediately begin receiving income calculated on life expectancy or for a certain period. Deferred means that the withdrawals will occur in the future. When beginning withdrawals from deferred annuities, the investor can choose to annuitize the account or to take periodic withdrawals. Annuitizing simply means converting it to an immediate annuity.

## **Item 9 Disciplinary Information**

The Hedrick Co., its principal owners Betty and Gary Hedrick, and its staff have no disciplinary events.

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

Other Financial Industry Affiliations include various insurance companies and brokers as necessary to provide competitive products for clients.

Volunteer work may include serving as treasurer on non-profit boards from time to time.

## **Item 11 Code of Ethics, Participation or Interest in Client Transactions & Personal Trading**

The Hedrick Co. and its employees' relationship with clients is that of a fiduciary. We must act for the benefit of our clients and place clients' interests above our own. In general we:

- Exercise good judgment, knowledge and due diligence in investment strategies, being sure to meet the needs and objectives of each client.
- Maintain client confidentiality.
- Put our clients' best interests first, before ours personally or The Hedrick Co.'s.
- Shall not mislead clients through either false statement nor through omission of material facts.
- Have an obligation to reasonably avoid conflicts of interest which would impair the independent and objective advice rendered.
- Shall fully disclose all material facts regarding any conflict of interest which cannot be reasonably avoided, ensure the client understands the conflict and obtain consent of the client.
- Disclose all fees and costs incurred by the client.
- Disclose all material benefits including "soft-dollar" benefits (for example access to research services) we receive from companies as a result of directing client business to them.
- Maintain a high standard of ability and integrity in the hiring of all employees.

Material facts are "anything which might affect the decision whether or how to act." <sup>1</sup> Stated differently, "The standard of materiality is whether or not a reasonable investor or prospective investor would have considered the information important in deciding whether or not to invest." <sup>2</sup>

### **Employee Transactions**

Employees will not participate in any client transactions including:

- Buying securities from clients for themselves or selling any securities they own to clients.
- Enter into any business arrangement or receive any compensation directly from any client of the company for related services or products.
- Purchase for, or recommend, investment products in which the employee or related person has financial interest.

Employees may buy or sell publicly traded securities that are also purchased or held in client accounts. These transactions must be approved by management prior to execution. If they are purchased at the same time, market orders must be placed only after the client's orders are placed. Limit orders must specify a price that is at least one cent less favorable than any entered for clients in order to avoid competing with the clients for execution. If we sell for clients based on their particular circumstances, we may still purchase in our accounts based on our circumstances. However, the decision as to whether a security is a quality investment is the same, we do not take opposite positions to clients based on the security analysis.

Our complete Code of Ethics is available upon request.

<sup>1</sup> (*Allen Realty Corp. v. Holbert*, 3188 S.E.2d 592, 227 Va. 441 (Va., 1984))

<sup>2</sup> *SEC v. Ki.W. Brown and Co.*, 555 F.Supp.2d 1275 (S.D. Fla., 2007), citing *SEC v. Steadman*, 967 F.2d 636, 643 (D.C.Cir.1992)

## Item 12 Brokerage Practices

Investing your funds in financial markets involves multiple tasks: holding the money and securities (custodian), initiating the buys and sells within the accounts (investment adviser), executing the buys and sells (broker-dealer) and bringing buyers and sellers together by creating the marketplace (exchanges). The first three tasks can all be provided and controlled by one entity. Those entities can also have other financial business interests such as owning banks, insurance companies and venture capital divisions.

The U.S. Securities Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA) and individual states' Departments of Financial Institutions are the major regulators of the industry. Some parties fall under the jurisdiction of only one agency, others under multiple agencies.

Your assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or bank. We require that our clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, SIPC member, as the qualified custodian.

In your case, The Hedrick Co is the investment adviser, Charles Schwab is the custodian and broker-dealer, and the Exchanges - primarily NYSE, AMEX, & NASDAQ) and the over the counter market (OTC) - make up the marketplace, the forum that brings the buyers and sellers together.

The Hedrick is independently owned and operated. We are not affiliated with Schwab. We do not maintain custody of your assets<sup>1</sup>.

Schwab will hold your assets in a brokerage account and buy and sell securities when we instruct them to. You will open your account with Schwab by entering into an account agreement directly with them. We will assist you with the paperwork, but we cannot open the account for you.

Not all advisers require their clients to use a particular broker-dealer or other custodian. We limit our custodian to a single firm to enable back office efficiency and to maximize our negotiating position. Even though your account is maintained at Schwab, we can still use other brokers to execute trades for your account.

<sup>1</sup>We may be deemed to have custody of your assets if you give us authority to withdraw assets from your account (see Item 15 Custody on page 20).

### **Broker/Custodian Selection**

We seek to use a custodian/broker who will hold your assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers. We consider a wide range of factors, including, among others:

- Combination of transaction execution services and asset custody services
- Capability to execute, clear, and settle trades
- Capability to facilitate transfers and payments to and from accounts
- Breadth of available investment products
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services
- Reputation, financial strength, and stability
- Availability of other products and services that benefit us

### **Brokerage and Custody Costs**

Schwab generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades in your Schwab account.

Schwab charges you a flat dollar amount as a “prime broker” or “trade away” fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account. We have determined that having Schwab execute most trades is consistent with our duty to seek “best execution” of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors.

Block Trades allow buying and selling securities for multiple accounts with just one order. Allocations are always based on average price received. On occasion, block trades result in partial fills. Adviser prorates partial fills by percentage when possible. If proration would result in trades too small to allow reasonable cost vs. benefit, adviser allocates alphabetically by client last name on a rotating schedule of a-z, z-a, l-a, m-z. Partial fills may result in higher prices or loss of opportunity when purchasing securities. Partial fills may result in a lower price when liquidating a position. Partial fills may result in more than one transition charge.



## **Products and Services Available to Us From Schwab**

Schwab Adviser Services™ (formerly called Schwab Institutional®) is Schwab's business serving independent investment Advisory firms like us. They provide our clients and us with access to its institutional brokerage—trading, custody, reporting, and related services—many of which are not typically available to Schwab retail customers.

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisers whose clients maintain their accounts at Schwab. Some of those services help us manage or administer our clients' accounts, while others help us manage our business. Schwab's support services generally are available on an unsolicited basis (we don't have to request them). There is no charge for these services as long as we maintain at least \$10,000,000 under management in accounts held at Schwab.

We are not required or urged to give any particular investment advice or buy particular securities for our clients in order to receive Schwab's services. We are not required to generate any level of commissions; and the services available do not increase or decrease with the amount of commissions Schwab receives from our accounts.

### **Services That Directly Benefit You**

Schwab's institutional brokerage services include: access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients.

### **Services That Indirectly Benefit You**

These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research in managing all of our clients' accounts. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

### **Services That Generally Benefit Only Us**

Schwab also offers other services intended to help us manage our business. These services include educational conferences and events; consulting on technology, compliance, legal, and business needs; and publications or conferences on practice management.

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. We participate in some of the educational events,

subscribe to Schwab's newsletters on compliance and read many of the articles published on their website.

We have not engaged Schwab to provide or procure any consulting directly to The Hedrick Co. on technology, compliance, legal, business needs or any other subject.

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. The \$10 million minimum required in Schwab accounts to qualify for these benefits may give us an incentive to require that you maintain your account with Schwab, based on our interest in receiving Schwab's services rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest.

We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality and price of Schwab's services to our clients. We do not believe that requiring our clients to collectively maintain at least \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.

## **Item 13 Review of Accounts**

First level of review: We continuously monitor securities, markets and economic conditions. Key developments, earnings, rating changes, analyst recommendations, news items or governance metric changes may trigger an in-depth review of specific securities. Market conditions and factors relating to particular industries also trigger reviews. If we judge that risk outweighs opportunity, it may result in liquidating all positions held within the client base without further review. If we decide to hold the security, it may trigger a review of client portfolios holding the security.

Second level: The next step concentrates on each client's portfolio. We review each client portfolio at least quarterly. Portfolio reviews may be triggered at any time by a result of a security review, by a change in your circumstances or by your request. Possible changes in holdings are determined by goals and guidelines as outlined in the IPS. We compare your IPS to the actual allocation and performance each quarter. It may result in rebalancing.

Third level: If the second level requires changes within investment holdings, the next step is to review each account type within your entire portfolio. Tax considerations, withdrawal plans, or time horizons for specific accounts determine how the holdings are adjusted. This review is triggered whenever level one or level two reviews call for purchases or sales, or at least annually.

Please request a consultation whenever you have a major change in your life, otherwise, in most cases, annual reviews with you will be sufficient. If we are working on shorter term goals, you are preparing to retire, or there are other variabilities in your life, we should have more frequent consultations during that period.

Betty Hedrick reviews all accounts and securities.



## Item 14 Client Referrals and Other Compensation

Betty Hedrick is licensed to sell life, disability and long term care insurance. During the last fiscal year, insurance sales represented less than 1% of gross revenues. We occasionally offer policies as a convenience to clients when they do not have an existing relationship with an agent and if the products we have access to offer competitive coverage and rates.

We do not accept compensation for making client referrals, nor pay others for referring us.

## Item 15 Custody

Under government regulations, we are deemed to have custody of your assets if, for example, you authorize us to instruct Schwab to deduct our Advisory fees directly from your account. Schwab maintains actual custody of your assets.

You will receive trade confirmations for each buy and sell in your account as well as monthly statements sent directly from Schwab. They will be sent to the email or postal mailing address you provided to Schwab. You should carefully review those statements promptly when you receive them. We also urge you to compare Schwab's account statements to the periodic portfolio reports you receive from us.

You will sign a limited power of attorney (LPOA) as part of your Schwab account application giving The Hedrick Co. authority to buy and sell securities in your Schwab accounts. The LPOA also allows us to order withdrawals on your behalf if they are sent directly to your address of record or to other accounts in your name. We cannot change your address, email or phone number.

## Item 16 Investment Discretion

We have discretionary authority over client accounts.

We draft an Investment Policy Statement (IPS) that describes the investment strategy, guidelines for implementation and applicable restrictions all of which is shaped by your life and life goals. Together, we revise as necessary and finalize the plan.

Decisions to buy or sell securities must be made according to the IPS.

You may instruct us to refrain from investing in certain companies, industries, security types or geographical regions. It is important to understand that your performance may be affected negatively by such requests.

If you give us instructions stemming from a professional conflict of interest mandate, we establish procedures to ensure compliance. The conflict of interest mandates are generally very precise in their requirements. Compliance does not require much interpretation. Should a prohibited security be purchased, we will liquidate the position as soon as we discover the error.

If your instructions are based on conscientious beliefs, judgement calls are often required. We are happy to follow the restrictions, but do not guarantee that none will ever be purchased. There may

be times when we buy a conglomerate we purchase for other reasons, has a subsidiary in an industry you want to avoid. If you see a company you do not approve of, you are welcome to call us and request us to liquidate the position.

While we are willing to limit purchases to companies within one of the socially conscientious indexes, we find that tailoring the portfolios to meet your individual beliefs without unduly limiting investment choices is the better approach.

The LPOA discussed in Item 14 is part of the Schwab Account Agreement and is the instrument by which you grant us discretionary authority.

## Item 17 Voting Client Securities

One of our fiduciary responsibilities is to monitor corporate events and to vote the proxies in a manner consistent with the best interest of our clients.

The SEC says: Under rule 206(4)-6, advisers that exercise voting authority with respect to client securities must adopt proxy voting policies and procedures. The policies and procedures must be in writing. They must be reasonably designed to ensure that the adviser votes in the best interest of clients. And they must describe how the adviser addresses material conflicts of interest.<sup>1</sup>

<sup>1</sup> Final Rule: Proxy Voting by Investment Advisers; Release No. IA-2106 Page 3 of 19  
<http://www.sec.gov/rules/final/ia-2106.htm> 3/29/2011

You may request a copy of our complete proxy voting policies and procedures. In summary:

- You may ask us how we voted on issues by calling or emailing us.
- If you do not approve of how we vote your proxies, you may decide to reclaim the responsibility to vote them yourself, or
- You may provide us with instructions on how to vote your proxy on any specific issue.
- We review, no less frequently than annually, the adequacy of the policies and procedures established pursuant to this section and the effectiveness of their implementation; and
- Betty Hedrick and Betty McNiel are responsible for reviewing the policies.
- The Hedrick Co. maintains records as required by law regarding proxy votes.

We believe that:

- The most effective boards are those that include members with diverse backgrounds.
- Board members should not have conflicting connections to other firms.
- Boards of Directors should not be comprised of a large percentage of company management.
- It is a conflict of interest for auditors to provide consulting fees or tax preparation services to companies they audit.
- While competitiveness of executive compensation is key to attracting qualified personnel, it is equally important to protect the rights of shareholders.
- If we value a company enough to invest in it, we tend to also value management and tend to support management proposals for routine items.
- At all times, we vote in such a way as we believe will protect potential value to shareholders.

## Item 18 Financial Information

The Hedrick Co. has no additional financial circumstances to report. We have never entered into any bankruptcy proceedings. We do not require prepayment of client fees.

**Item 1 Cover Page**

# The Hedrick Co.

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<http://hedrickco.com/>  
[Betty.h@hedrickco.com](mailto:Betty.h@hedrickco.com)

March 31<sup>st</sup>, 2011

This brochure supplement provides information about the qualifications. It is being provided with Part 2A form ADV which provides information about The Hedrick Co- and its business practices.

## Item 2 Educational Background and Business Experience

Betty Hedrick CFP®<sup>1</sup>

Born 1953

Macalester College 1975 University of MN 1978

The Hedrick Company, 1986 to present

June 1986 to present: Certified Financial Planner (CFP)

October 1990 to present: Life and Disability Insurance Licensed Agent

May 1991 to present: Registered Investment Adviser<sup>2</sup> Representative

March 2003 to present: Certified Divorce Financial Analyst (CDFA)<sup>3</sup>

Comprehensive financial advisory services:

Laney & Company 1985-1988 Seattle, WA (firm was sold in the mid 90's and closed in the late 90's)  
Independent Registered Representative. Served as options and derivatives compliance officer for the firm until the mid 90's. Was dually licensed as registered representative and registered investment advisor from 1991 through 1994 at which time I completed the transition to a fee only advisory firm.

International Futures, Bellevue WA and Vancouver BC 1984-1986

Branch Office Manager 1985-1986

Futures Broker 1984-1986

Social Services Organizations, 1978-1983

Program and fiscal management of various residential, outpatient, and policymaking organizations in MN and ID.

### Footnotes for Item 2

<sup>1</sup> The CFP® certification is a voluntary certification; no federal or state law or regulation requires financial planners to hold CFP® certification. It is recognized in the United States and a number of other countries for its (1) high standard of professional education; (2) stringent code of conduct and standards of practice; and (3) ethical requirements that govern professional engagements with clients.

To attain the right to use the CFP® marks, an individual must satisfactorily fulfill the following requirements:

- o Education – Complete an advanced college-level course of study addressing the financial planning subject areas that CFP Board's studies have determined as necessary for the competent and professional delivery of financial planning services, and attain a Bachelor's Degree from a regionally accredited United States college or university (or its equivalent from a foreign university). CFP Board's financial planning subject areas include insurance planning and risk management, employee benefits planning, investment planning, income tax planning, retirement planning, and estate planning;
- o Examination – Pass the comprehensive CFP® Certification Examination. The examination, administered in 10 hours over a two-day period, includes case studies and client scenarios

designed to test one's ability to correctly diagnose financial planning issues and apply one's knowledge of financial planning to real world circumstances;

- Experience – Complete at least three years of full-time financial planning-related experience (or the equivalent, measured as 2,000 hours per year); and
- Ethics – Agree to be bound by CFP Board's Standards of Professional Conduct, a set of documents outlining the ethical and practice standards for CFP® professionals.
- Individuals who become certified must complete the following ongoing education and ethics requirements in order to maintain the right to continue to use the CFP® marks:
- Continuing Education – Complete 30 hours of continuing education hours every two years, including two hours on the Code of Ethics and other parts of the Standards of Professional Conduct, to maintain competence and keep up with developments in the financial planning field; and
- Ethics – Renew an agreement to be bound by the Standards of Professional Conduct. The Standards prominently require that CFP® professionals provide financial planning services at a fiduciary standard of care. This means CFP® professionals must provide financial planning services in the best interests of their clients.

CFP® professionals who fail to comply with the above standards and requirements may be subject to CFP Board's enforcement process, which could result in suspension or permanent revocation of their CFP® certification.

<sup>2</sup> RIA refers only to the fact that I am a registered with the proper regulatory agencies. It does not connote any specialized training.

<sup>3</sup> Certified Divorce Financial Analyst (CDFA™) is the professional certification mark granted in the United States by the Institute of Divorce Financial Analysts. It is a voluntary certification; no federal or state law or regulation requires divorce advisers to hold a CDFA™ certification.

To attain the right to use the CDFA™ mark, an individual must satisfactorily fulfill the following requirements:

- Training: The designation can be achieved in two to six months by completing four modules of study and passing the exams. Subjects include tax consequences of divorce agreements, identifying marital property, valuing assets, analyzing businesses and pensions, projecting outcomes and related aspects of property, spousal maintenance and child support issues.
- Experience: Candidates must have at least two years of experience in the financial or legal field.
- The candidate must be in good standing with her firm and governmental regulation agencies.
- Certificants must complete twenty hours of continuing education every two years.

### Item 3 Disciplinary Information

None

### Item 4 Other Business Activities

There are no other business activities that would create any conflict of interest.

There are no bonuses or non-cash compensation received for sale of securities or other investment products.

If life or long term care insurance products are sold, commissions may be received. This source of income totaled less than 1% of revenues in the last fiscal year.

Financial analysis and consulting related specifically to property settlements in divorce may take up more than 10% of my time. It is an adjunct of our financial planning services, we do not intend for it to become our primary business. The analysis centers on financial planning. Therefore, we do not believe it detracts from the comprehensive financial planning done for other clients.

Divorce planning does not present a conflict of interest for financial planning and investment management clients. If an existing client requests assistance on divorce matters, we evaluate possible conflict of interest, disclose it and discuss it with the client. The decision on whether we work together or not is made on a case-by-case basis.

## **Item 5 Additional Compensation**

Compensation is limited to duties at The Hedrick Co. There are no incentives, bonuses or prizes relating to management of client accounts beyond regular salary.

## **Item 6 Supervision**

Betty Hedrick conducts all supervision requirements.