

# **ESSEX ASSET MANAGEMENT GROUP, INC**

## **FIRM BROCHURE**

**MARCH 1, 2011**

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This brochure provides information about the qualifications and business practices of Essex Asset Management Group, Inc. If you have any questions about the contents of this brochure, please contact us at (802) 879-1881. 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.

Essex Asset Management Group, Inc. is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about Essex Asset Management Group, Inc. is available on the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for the Firm is 116184.

## **2. MATERIAL CHANGES**

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to Clients as required by SEC Rules. This Brochure dated March 1, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide Clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to Clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting the Firm at (802) 879-1881.

Additional information about Essex Asset Management Group, Inc. is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with the Firm who are registered, or are required to be registered, as investment adviser representatives.

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#### **4. ADVISORY BUSINESS**

##### **a. OWNERSHIP**

Essex Asset Management Group, Inc. is owned by Todd R. Toensing. The Firm was formed as a Vermont Corporation on May 5, 1994. It was subsequently registered as an investment adviser in Vermont on September 1994. Due to the growth in its assets under management, it became a federal investment adviser registered under the Securities and Exchange Commission on January 13, 2006.

##### **b. ADVISORY SERVICES OFFERED**

Prior to the Adviser-Client relationship, the Firm may offer a complimentary general consultation to discuss services available, to give a prospective Client time to review services desired, and to determine the possibility of a potential relationship. Investment advisory services begin only after the Client and Firm formalize the relationship with a properly executed Client Agreement.

After engaging the Firm, the Client will be asked to share in a data gathering and discovery process in an effort to determine the Client's stated needs, goals, intentions, time horizons, risk tolerance and investment objectives, based upon information provided by the Client and the nature of services requested.

The following services are offered by the Firm:

##### **1. PORTFOLIO MANAGEMENT SERVICES**

The Firm manages individualized portfolios for its Clients through its Portfolio Management Services. The Firm works with each Client to formulate an individualized portfolio based upon his/her objectives, time frame, risk parameters and other investment considerations. The Firm uses marketable securities such as bonds, certificates of deposit, exchange-traded funds, mutual funds, real estate investment trusts, and stocks.

##### **2. FINANCIAL PLANNING SERVICES**

The Firm offers Clients Financial Planning Services to evaluate their financial situation, goals and risk tolerance. Through a series of personal interviews and the use of questionnaires the Firm will collect pertinent data, identify goals, objectives, financial problems, potential solutions, prepare specific recommendations and implement recommendations. As a result of these actions, the Firm's advice may be provided on financial and cash management, risk management, financial issues relating to divorce or marital issues, estate planning, tax issues, retirement planning, educational funding, goal setting, or other needs identified by the Client and Firm. The

Firm may offer comprehensive planning services or the Client may desire advice on certain planning components; the Firm can tailor services as desired by the Client. At the conclusion of the Financial Planning Service the Firm shall present the Client with a written financial plan.

Clients are not obligated to follow the Firm's recommendations or to pursue the recommendations through it.

c. TAILORED SERVICES

All Portfolio Management and Financial Planning Services are individualized or tailored to each Client's needs, goals and objectives.

d. WRAP PROGRAM

The Firm does not have or offer a wrap program.

e. CLIENTS ASSETS MANAGED

As of January 24, 2011, the Firm manages 525 discretionary accounts that total \$35,000,000 in assets.

## **5. FEES AND COMPENSATION**

a. PORTFOLIO MANAGEMENT SERVICES FEES

Fees for Portfolio Management Services will be a percentage of the assets under management. The Fee ranges from .5% to 1.00% and it is negotiable. The fee is charged on quarterly basis and due at the end of each quarter.

The Portfolio Management fee will be calculated on the Account's fair market value as of the quarter-end as reported by the account's custodian. Cash balances and investments in money market funds, demand deposit accounts, and certificates of deposit at banks or brokerage firms are covered by the Account and are included in the fee calculations.

The Firm may from time to time unilaterally amend our fees and billing arrangements. Any change will only become effective after thirty (30) days prior written notice. The fees for these portfolios are not based on the financial performance or capital gains or losses experienced by the Account.

The Firm's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the Client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities

transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Firm's fee and it shall not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that the Firm considers in selecting or recommending broker-dealers for *Client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

#### Termination of Portfolio Management Services

A Client may terminate the Portfolio Management Agreement for any reason at any time and, within the first five (5) business days after signing the contract, without any cost or penalty. Thereafter, the contract may be terminated at any time by giving ten (10) days written notice to the Firm at EMG 63 Main St., Essex Junction, Vermont 05452. Upon written notice of termination the Client will be invoiced a prorated fee for the services rendered during the termination quarter.

#### b. FINANCIAL PLANNING SERVICES

The aforementioned Financial Planning Services are provided on an hourly or fixed fee basis in accordance with the following fee schedule:

##### Hourly Fee

The Firm assesses an hourly of \$150 per hour for consulting related financial planning services. The minimum hourly planning fee is \$300. The number of hours will vary depending upon the complexity of the financial situation, the estimate of hours involved, including preparation and research, areas to be specified and estimated in the written agreement for services. All fees for planning services are due at the conclusion of the financial planning consultations. The Client will be asked to sign a financial planning agreement. For prepaid fees in excess of \$500, services will be completed within six months of the date fees are received.

##### Comprehensive Planning Fixed Fee

For the Firm's comprehensive financial planning it assess a fixed fee between \$500 and \$2,000. The fixed fee will vary depending upon the complexity of the financial situation, the estimate of hours involved, including preparation and research, areas to be specified and estimated in the written agreement for services. A \$500 deposit is due upon signing the financial planning agreement. The remainder of the fixed fee is due upon the delivery of the financial plan. Clients will be asked to sign a financial planning agreement. For prepaid fees in excess of \$500.00, services will be completed within six months of the date fees are received.

### Termination of Financial Planning Services

A Client may terminate this service for any reason within the first five (5) business days after signing the contract without any cost or penalty. Thereafter, the contract may be terminated at any time by giving ten (10) days written notice to the Firm at EMG 63 Main St., Essex Junction, Vermont 05452. Upon written notice of termination, Hourly Financial Planning fees will be prorated based upon the number of hours that services were rendered and the Comprehensive Financial Planning fixed fee will be prorated based upon the percentage of work completed.

#### c. OTHER SECURITIES COMPENSATION

The Firm is not associated with any other securities firms, investment adviser or broker-dealer. It does not receive any other form of securities related compensation.

The Firm's investment adviser representatives are registered representatives of Hazard & Siegel, Inc., a registered broker-dealer. As registered representatives they can sell securities to Clients separately from their services as investment adviser representatives. With the ability to work as a Client's registered representative and investment adviser representative, this could be viewed as a conflict of interest because each service pays a separate fee or commission. The Firm and its investment adviser representatives alleviate any conflicts of interest by acting as a fiduciary for the Client in all situations. Their fiduciary duty requires them to place the Client's interests ahead of their own. The Firm has also implemented a code of ethics and other policies and procedures that address any potential conflict. Furthermore, when receiving a recommendation to purchase other investment products, Clients always have the option to purchase the investment products through other brokers or agents that are not affiliated with the Firm.

### **6. PERFORMANCE-BASED FEES AND SIDE BY SIDE MANAGEMENT**

The Firm does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a Client).

### **7. TYPES OF CLIENTS**

The Firm offers its portfolio management services to individuals, pension and profit sharing plans, trusts, estates, charities, corporations and other business entities. The advice may be for a variety of account types including, but not limited to, individual, trust, individual retirement accounts, or other qualified accounts.

The Firm's minimum account size is \$100,000 for starting and maintaining an account. The Firm may aggregate related accounts in the same household to meet account minimums. Minimums may be negotiated, reduced or waived at the discretion of the Firm.

## 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### a. METHODS OF ANALYSIS AND INVESTMENT STRATEGIES

With respect to the Firm's Portfolio Management Services, the Firm utilizes an individualized asset allocation method for each Client account. When deciding on the asset allocation for a Client's account, the Firm studies various market indicators such as financial newspapers and magazines, research prepared by other advisers, company press releases, prospectuses, and other market related filings. After studying the market indicators the Firm may move all, none or a portion of the Client's account assets into the market.

### b. INVESTMENT RISKS

All investments bear different types and degrees of risk and **investing in securities involves risk of loss that Clients should be prepared to bear.** While our investment strategies are designed to provide appropriate investment diversification, some investments have significantly greater risks than others. Obtaining higher rates of return on investments entails accepting higher levels of risk. Recommended investment strategies seek to balance risks and rewards to achieve investment objectives. Clients need to ask questions about risks they do not understand. We would be pleased to discuss them.

We strive to render our best judgment on behalf of our Clients. Still, we cannot assure or guarantee Clients that investments will be profitable or assure that no losses will occur in an investment portfolio. Past performance is an important consideration with respect to any investment or investment adviser but is not a reliable predictor of future performance. We continuously strive to provide outstanding long-term investment performance, but many economic and market variables beyond our control can affect the performance of an investment portfolio.

### c. RECOMMENDED SECURITIES AND THEIR RISKS

The Firm recommends several types of securities. They and their risks are as follows:

#### **Bonds (Corporate and Government)**

**Definition.** A bond is a debt investment in which an investor loans a certain amount of money, for a certain amount of time, with a certain interest rate, to a company or the government. A corporate bond is a bond issued by a corporation. It is a bond that a corporation issues to raise money in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date. (The term "commercial paper" is sometimes used for instruments with a shorter maturity.) A government bond is a bond issued by a national government denominated in the country's own currency.

**Interest rate risk.** This is the risk that a rise in interest rates will cause the price of a fixed rate debt security to fall. Generally, a bond with a longer the maturity or weighted average maturity of a bond, the greater the interest rate risk will be.

**Credit risk.** This is the risk that an issuer of a debt security or counterparty to an over-the-counter derivative could suffer an adverse change in financial condition that results in a payment default, security downgrade, or inability to meet a financial obligation.

**Liquidity risk.** This is the risk that the Firm may not be able to sell the bond in a timely manner at a desired price.

**Prepayment risk and extension risk.** Prepayment risk is the risk that the principal on mortgage-backed securities, other asset-backed securities or any fixed income security with an embedded call option may be prepaid at any time, which could reduce yield and market value. The rate of prepayments tends to increase as interest rates fall, which could cause the average maturity of the portfolio to shorten. Extension risk may result from a rise in interest rates, which tends to make mortgage-backed securities, asset backed securities, and other callable fixed income securities more volatile.

### **Certificates of Deposit**

**Lower yields.** Because of the inherent safety and short-term nature of a CD investment, yields on CDs tend to be lower than other higher risk investments.

**Interest Rate Fluctuation.** Like all fixed income securities, CD prices are susceptible to fluctuations of interest rates. If interest rates rise, the market price of outstanding CDs will generally decline. However, since changes in interest rates will have the most effect on longer maturities, short-term CDs are generally less susceptible to interest rate movements.

**Credit Risk.** Since CDs are a debt instrument, there is credit risk associated with their purchase. The insurance offered by the FDIC may help mitigate this risk. Customers are responsible for evaluating both the CDs and the creditworthiness of the underlying issuing institution. It is not Fidelity's responsibility to perform these evaluations.

**Insolvency of the Issuer.** In the event the Issuer approaches insolvency or becomes insolvent; the Issuer may be placed in regulatory conservatorship with FDIC typically appointed the conservator. As with any deposits of a depository institution placed in conservatorship, the CDs of Issuer for which a conservator has been appointed may be paid off prior to maturity or transferred to another depository institution. If the CDs are transferred to another institution, the new institution may offer you a choice of retaining the CD at a lower interest rate or having the CD paid off.

***Selling before maturity.*** CDs sold prior to maturity are subject to a concession and may be subject to a substantial gain or loss due to interest rate changes. The secondary market may also be limited. The market value of a CD in the secondary market may be influenced by a number of factors including, but not necessarily limited to, interest rates, provisions such as call or step features, and credit rating of the issuer. Fidelity currently makes a market in the CDs we make available, but may not do so in the future.

### **Exchange Traded Funds (“ETF”)**

***Definition.*** An exchange-traded fund (ETF) is an investment fund traded on stock exchanges, much like stocks. An ETF holds assets such as stocks, commodities, or bonds and trades at approximately the same price as the net asset value of its underlying assets over the course of the trading day. Most ETFs track an index, such as the S&P 500 or MSCI EAFE.

ETF investments and have risks similar to stocks. There are risks involved with investing in ETFs including the possible loss of money. The share price may trade above or below the purchase price.

***Market Risk.*** Since the ETF invests most or a substantial portion of its assets in stocks, it is subject to stock market risk. Market risk involves the possibility that the value of the ETF’s investments in stocks will decline due to drops in the stock market. In general, the value of the ETF will move in the same direction as the overall stock market in which the ETF invests, which will vary from day to day in response to the activities of individual companies, as well as general market, regulatory, political and economic conditions.

***Trading Risk.*** Although ETFs will be listed on the Exchange, there can be no assurance that an active or liquid trading market for them will develop or be maintained. In addition, trading in the ETF on the Exchange may be halted due to market conditions or for reasons that, in the view of the Exchange, make trading in the ETF inadvisable. Further, trading in the ETF on the Exchange is subject to trading halts caused by extraordinary market volatility pursuant to the Exchange “circuit breaker” rules. There can be no assurance that the requirements of the Exchange necessary to maintain the listing of the ETF will continue to be met or will remain unchanged.

***Value Stock Risk.*** Value stocks are subject to the risk that their intrinsic value may never be realized by the market or that their prices may go down. While the ETF’s investments in value stocks may limit its downside risk over time, the ETF may produce more modest gains than riskier stock funds as a trade-off for this potentially lower risk.

### **Mutual Funds (open and closed end)**

**Definition.** A mutual fund is a professionally managed type of collective investment scheme that pools money from many investors and invests typically in investment securities (stocks, bonds, short-term money market instruments, other mutual funds, other securities, and/or commodities such as precious metals). The mutual fund will have a fund manager that trades (buys and sells) the fund's investments in accordance with the fund's investment objective.

**Risks.** Every type of investment, including mutual funds, involves risk. Risk refers to the possibility that you will lose money (both principal and any earnings) or fail to make money on an investment. A mutual fund's investment objective and its holdings are influential factors in determining how risky a fund is. Reading the prospectus will help a Client to understand the risk associated with that particular fund.

Generally speaking, risk and potential return are related. This is the risk/return trade-off. Higher risks are usually taken with the expectation of higher returns at the cost of increased volatility. While a fund with higher risk has the potential for higher return, it also has the greater potential for losses or negative returns. The school of thought when investing in mutual funds suggests that the longer your investment time horizon is the less affected you should be by short-term volatility. Therefore, the shorter your investment time horizon, the more concerned you should be with short-term volatility and higher risk.

Different mutual fund categories have inherently different risk characteristics and should not be compared side by side. A bond fund with below-average risk, for example, should not be compared to a stock fund with below average risk. Even though both funds have low risk for their respective categories, stock funds overall have a higher risk/return potential than bond funds.

Of all the asset classes, cash investments (i.e. money markets) offer the greatest price stability but have yielded the lowest long-term returns. Bonds typically experience more short-term price swings, and in turn have generated higher long-term returns. However, stocks historically have been subject to the greatest short-term price fluctuations—and have provided the highest long-term returns. Investors looking for a mutual fund which incorporates all asset classes may consider a balanced or hybrid mutual fund. These mutual funds can be very conservative or very aggressive. Asset allocation portfolios are mutual funds that invest in other mutual funds with different asset classes. At the discretion of the manager(s), securities are bought, sold, and shifted between funds with different asset classes according to market conditions.

Mutual funds face risks based on the investments they hold. For example, a bond fund faces interest rate risk and income risk. Bond values are inversely related to interest rates. If interest

rates go up, bond values will go down and vice versa. Bond income is also affected by the change in interest rates. Bond yields are directly related to interest rates falling as interest rates fall and rising as interest rise. Income risk is greater for a short-term bond fund than for a long-term bond fund.

Similarly, a sector stock fund (which invests in a single industry, such as telecommunications) is at risk that its price will decline due to developments in its industry. A stock fund that invests across many industries is more sheltered from this risk defined as industry risk.

FDIC insurance only covers the principal amount of the CD and any accrued interest. In some cases, CD's may be purchased on the secondary market at a price which reflects a premium to their principal value. This premium is ineligible for FDIC insurance.

**Coverage limits.** FDIC insurance limits apply to aggregate amounts on deposit at each covered institution. Investors should consider the extent to which other accounts, deposits or accrued interest may exceed applicable FDIC limits.

### **Real Estate Investment Trusts (REIT)**

**Definition:** A real estate investment trust (REIT) is a corporation that combines the capital of many investors to acquire or provide financing for a professionally managed portfolio of real estate. Generally a REIT does not pay corporate income tax, which means nearly all of its income can be distributed. It must distribute at least 90 percent of its taxable income to its investors. Non-traded REIT shares or interests in the REIT are not traded on an exchange and there is typically a limited secondary market.

**Price Risk:** The price of shares is subjective and may not bear any relationship to what stockholders could receive if the shares were resold.

**Liquidity Risk:** There is no secondary market for many REITs and investors are limited in their ability to sell their shares through the REITs's share redemption program or their own ability to find a purchaser.

**Market Risk:** REITs have no control over market and business conditions and are vulnerable to market risk and slow downs. External conditions beyond its control may reduce the value of properties that it acquires, the ability of tenants to pay rent on a timely basis, the amount of rent that can be charged and the ability of borrowers to make loan payments on a timely basis or at all. Cash available for distribution to stockholders can be affected by the tenant's inability to make rents or pay loans.

**Tenant Strength:** REIT's revenues are highly dependent on lease payments from its properties and interest payments on the loans it makes. Defaults by tenants or borrowers reduce the cash

available for repayment of outstanding debt and distribution to investors. If tenants have multiple properties or borrowers have multiple loans it increases the risk of more than one property or loan going bad if that tenant or borrower defaults. More than one property could become vacant or loans are in default because of the financial failure of one tenant or borrower. Multiple vacancies or defaults can reduce a REIT's cash receipts and funds available for distribution and could decrease the value of the affected properties.

***Qualifying Risk:*** REITs must be organized and operated, and intend to continue to be organized and to operate, in a manner that will enable them to qualify as a REIT for federal income tax purposes. No assurance can be given that a REIT qualifies or will continue to qualify as a REIT. If a REIT fails to qualify as a REIT, it will be subject to federal income tax at regular corporate rates. If a REIT fails to qualify the funds available for distribution to investors would be greatly reduced for each of the years involved.

### **Stocks (Equities)**

***Definition.*** The equity or stock of a business entity represents the original capital paid into or invested in the business by its founders. It serves as a security for the creditors of a business since it cannot be withdrawn to the detriment of the creditors. Stock is distinct from the property and the assets of a business which may fluctuate in quantity and value.

***Principal Risk.*** There is no guarantee that a stock will go up in value. A stock's price fluctuates, which means a Client could lose money by investing in an equity security.

***Risks of stock investing.*** Stocks generally fluctuate in value more than bonds and may decline significantly over short time periods. There is the chance that stock prices overall will decline because stock markets tend to move in cycles, with periods of rising prices and falling prices. The value of a stock may decline due to general weakness in the stock market or because of factors that affect a company or a particular industry.

***Investment style risk.*** Different investment styles tend to shift in and out of favor, depending on market conditions and investor sentiment. Growth stocks tend to be more volatile than value stocks and their prices usually fluctuate more dramatically than the overall stock market. A stock with growth characteristics can have sharp price declines due to decreases in current or expected earnings and may lack dividends that can help cushion its share price in a declining market.

## **9. DISCIPLINARY INFORMATION**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events within the past 10 years that would be material to your evaluation of the Firm or the integrity of its management.

- a. CRIMINAL DISCLOSURES. A criminal or civil action in domestic, foreign or military court of competent jurisdiction in which the *supervised person*
- i. Was convicted of, pled guilty or nolo contendere (“no contest”) to (a) any *felony*; (b) a *misdemeanor* that *involved* investments or an *investment-related* business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, or extortion; or (c) a conspiracy to commit any of these offenses;
  - ii. Is the named subject of a pending criminal *proceeding* that involves an *investment-related* business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offense;
  - iii. Was *found* to have been *involved* in a violation of an *investment-related* statute or regulation or
  - iv. Was the subject of any *order*, judgment, or decree permanently or temporarily enjoining, or otherwise limiting, the *supervised person* from engaging in any investment-related activity, of from violating any investment-related statute, rule or order.

**The Firm has no information applicable to this Item because it and its investment adviser representatives have never been the subject of any civil or criminal proceedings.**

- b. ADMINISTRATIVE DISCLOSURES. An administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority in which the supervised person
- i. Was *found* to have caused an *investment-related* business to lose it authorization to do business; or
  - ii. Was *found* to have been involved in a violation of an *investment-related* statute or regulation and was the subject of an order by the agency or authority
    - 1. Denying, suspending, or revoking the authorization of the supervised person to act in an *investment-related* business;
    - 2. Barring or suspending the supervised person’s association with an *investment-related* business;
    - 3. Otherwise significantly limiting the supervised person’s *investment-related* activities; or
    - 4. Imposing a civil penalty of more than \$2,500 on the supervised person.

**The Firm has no information applicable to this Item because it and its investment adviser representatives have never been the subject of any Administrative proceedings.**

- c. SELF REGULATORY ORGANIZATION DISCLOSURES. A self-regulatory organization (SRO) proceeding in which the supervised person
  - i. Was *found* to have caused an *investment-related* business to lose its authorization to do business; or
  - ii. Was *found* to have been involved in a violation of the SRO's rules and was (i) barred or suspended from membership or from association with other members, or was expelled from membership; (ii) otherwise significantly limited from investment-related activities; or (iii) fined more than \$2,500.

**The Firm has no information applicable to this Item because it and its investment adviser representatives have never been the subject of any self regulatory proceedings.**

## **10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### a. BROKER-DEALER AFFILIATIONS

The Firm's investment adviser representatives are also registered representatives of Hazard Seigel, Inc., a securities broker-dealer. The amount of time each investment adviser representative spends on this activity varies and it will be disclosed in his individual disclosure brochure that accompanies this brochure, ADV Part 2B. With the ability to work as a Client's registered representative and investment adviser representative, this could be viewed as a conflict of interest because each service pays a separate fee or commission. The Firm and its investment adviser representatives alleviate any conflicts of interest by acting as a fiduciary for the Client in all situations. Their fiduciary duty requires them to place the Client's interests ahead of their own. The Firm has also implemented a code of ethics and other policies and procedures that address any potential conflict. Furthermore, when receiving a recommendation to purchase other investment products, Clients always have the option to purchase the investment products through other brokers, producers or agents that are not affiliated with the Firm.

### b. FUTURES/COMMODITIES FIRM AFFILIATION

The Firm, its owner and investment adviser representatives are not affiliated with a futures or commodities broker.

### c. OTHER INDUSTRY AFFILIATIONS

The Firm's investment adviser representatives are also independent insurance producers (Life and Health Licensed). The amount of time each investment adviser representative spends on this

activity varies and it will be disclosed in his individual disclosure brochure that accompanies this brochure, ADV Part 2B. They may recommend this service to the Firm's Clients. With the ability to work as a Client's insurance producer and investment adviser representative, this could be viewed as a conflict of interest because each service pays a separate fee or commission. The Firm and its investment adviser representatives alleviate any conflicts of interest by acting as a fiduciary for the Client in all situations. Their fiduciary duty requires them to place the Client's interests ahead of their own. The Firm has also implemented a code of ethics and other policies and procedures that address any potential conflict. Furthermore, when receiving a recommendation to purchase other investment products, Clients always have the option to purchase the investment products through other brokers, producers or agents that are not affiliated with the Firm.

d. SELECTION AND MONITORING OF THIRD PARTY INVESTMENT ADVISERS

The Firm does not select or monitor third party investment advisers for its Clients.

## **11. CODE OF ETHICS**

a. DESCRIPTION

The Firm's Code of Ethics establishes ideals for ethical conduct upon fundamental principles of openness, integrity, honesty, and trust. The Firm will provide a copy of our Code of Ethics to any Client or prospective Client upon request.

The Firm's Code of Ethics covers all supervised persons and it describes its high standard of business conduct, and fiduciary duty to its Clients. The Code of Ethics includes provisions relating to the confidentiality of Client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at the Firm must acknowledge the terms of the Code of Ethics annually, or as amended.

b. MATERIAL INTEREST IN SECURITIES

The Firm, its owners and investment adviser representatives do not recommend the purchase or sale of securities in which they have a material financial interest.

c. INVESTING IN THE SAME SECURITIES

The Firm does not have a proprietary account and therefore does not trade securities.

On occasion, the Firm's owner and investment adviser representatives may buy or sell for their own accounts securities that are the same as or similar to those that they recommend to their

Clients for purchase or sale. The Firm attempts to mitigate any conflict of interest this creates to the best of its ability through the enactment of the Firm's code of ethics, trading policies, and its fiduciary responsibilities. Nonetheless, the Firm generally attempts to place Client transactions ahead of proprietary trades. The associates of the Firm are aware of their fiduciary duty to their Clients and the prohibitions against the use of any insider information. Records of all associates' proprietary trading activities will be kept by the Firm, available to regulators to review on the premises.

d. RECOMMENDING THE SAME SECURITIES

The Firm does not have a proprietary account and therefore does not trade securities.

On occasion, the Firm's owner and investment adviser representatives may buy or sell for their own accounts securities that are the same as or similar to those that they recommend to their Clients for purchase or sale. The Firm attempts to mitigate any conflict of interest this creates to the best of its ability through the enactment of the Firm's code of ethics, trading policies, and its fiduciary responsibilities. Nonetheless, the Firm generally attempts to place Client transactions ahead of proprietary trades. The associates of the Firm are aware of their fiduciary duty to their Clients and the prohibitions against the use of any insider information. Records of all associates' proprietary trading activities will be kept by the Firm, available to regulators to review on the premises.

## **12. BROKERAGE PRACTICES**

a. RECOMMENDATION CRITERIA

### Recommended Brokerage

When the Firm and its representatives are conducting business as an investment adviser or an investment adviser representative, it will recommend a separate broker-dealer or custodian to hold Client assets. The recommendation will be based upon broker-dealers and custodians who offer competitive commission costs together with reliable services. The Firm and its investment adviser representatives have and continue to recommend Charles Schwab & Co., Inc. to its Clients for their independent qualified custodian. The Firm and its investment adviser representatives recognize their fiduciary responsibility in negotiating brokerage commissions, assuring best execution practices and assuring adequate investment availability/inventory on behalf of their Clients. Neither the Firm nor its investment adviser representatives receive compensation with respect to execution of trades at Charles Schwab & Co., Inc. The Firm will refer Clients only to broker-dealer and custodians that are registered in the states where the Clients reside.

### Directed Brokerage

Some Clients may direct us to a specific broker-dealer to execute securities transactions for their accounts. This will be accommodated if proven feasible. When so directed, we may not be able to effectively negotiate lower brokerage commissions or achieve best execution on Clients' transactions. This can result in substantially higher fees, charges or dealer concessions in one or more transactions for the Clients' account because the Firm cannot aggregate orders or negotiate favorable prices.

#### b. TRADE AGGREGATION

The Firm does not aggregate trades. This section is not applicable.

### **13. REVIEW OF ACCOUNTS**

#### a. PERIODIC REVIEWS

Portfolio Management Services accounts are reviewed daily by its assigned investment adviser representative. Financial Planning accounts are reviewed on an annual basis as triggered by the calendar.

#### b. OTHER REVIEWS

Additional reviews are conducted periodically depending on market conditions, economic or political events, or by changes in a Client's financial situation (such as retirement, termination of employment, physical move or inheritance).

#### c. REPORTS

Fixed Fee Financial Planning Clients receive a written report at the conclusion of the financial planning process. Portfolio management Clients will receive a quarterly statement from their independent qualified custodian. The Firm urges you to carefully review such statements. Portfolio management Clients will not receive additional reports from the Firm.

### **14. CLIENT REFERRALS AND OTHER COMPENSATION**

#### a. OTHER COMPENSATION

The Firm does not receive extra compensation or any other economic benefit for providing investment advice or other advisory services to Clients.

b. CLIENT REFERRALS

The Firm has a solicitor agreement with Burton Steen. Mr. Steen receives a portion of the Firm's Portfolio Management Fee on Clients he introduces to the Firm. The Portfolio Management Fee paid by his introduced Clients is the same fee paid by all other Firm Clients.

**15. CUSTODY**

All Client funds, securities and accounts are held at independent third-party custodians. The Firm does not take possession of a Client's securities. However, the Client will be asked to authorize the Firm in writing with the ability to deduct fees directly from the Client's account (See Section 5, Deduction of Fees, above). This authorization will allow the Firm to deduct the Firm's management fee only. The Client's custodian shall also send a quarterly statement indicating the amount of fees withdrawn from the Client's Account. A Client may object to the deduction of Firm's fees from the Account by notifying Firm at the address or telephone number shown on each quarterly statement or by notifying Client's custodian.

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains Client's investment assets. The Firm urges you to carefully review such statements.

**16. INVESTMENT DISCRETION**

The Firm's Portfolio Management Services are discretionary. The discretionary authority is obtained when a Client signs an investment management agreement. The agreement allows the Firm to manage the account through the purchase or sale of securities the Firm has selected, within the tolerance agreed to by the Client, and in the amounts the Firm deems suited to the agreed upon portfolio structure. It also allows the Firm to place each such trade without the Client's prior approval. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular Client account, and any other investment policies, limitation or restrictions.

The Firm's Financial Planning Services are non-discretionary. A non-discretionary investment account means the Client retains full discretion to supervise, manage, and direct the assets of the account. The Client maintains full power and authority to purchase, sell, invest, reinvest, exchange, convert, and trade the assets in the Account in any manner deemed appropriate and to place all orders for the purchase and sale of Account assets with or through brokers, dealers, or issuers selected by the Client. The Client is free to manage the account with or without the recommendation of the Firm and all with or without prior consultation with the Firm.

## **17. VOTING CLIENT SECURITIES**

Unless otherwise mutually agreed in writing, the Firm will not be responsible for responding to proxies that are solicited with respect to annual or special meetings of shareholders of securities held in Clients' accounts. Proxy solicitation materials will be forwarded to Clients for response and voting. In the event a Client has a question about a proxy solicitation, the Client should contact his/her investment adviser representative.

## **18. FINANCIAL INFORMATION**

### **a. BALANCE SHEET**

The Firm does not require or solicit prepayment of more than \$1200 in fees per Client, six months or more in advance, therefore, it is not required to provide a balance sheet.

### **b. FINANCIAL CONDITION**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about the Firm's financial condition that may impair its services. The Firm has no financial commitment that impairs its ability to service its Clients.

### **c. BANKRUPTCY**

The Firm has not been the subject of a bankruptcy proceeding.