

# Advocate Asset Management, LLC

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## **Firm Brochure**

(Part 2A of Form ADV)

This brochure provides information about the qualifications and business practices of Advocate Asset Management, LLC. If you have any questions about the contents of this brochure, please contact us via e-mail at [info@advocateam.com](mailto:info@advocateam.com) or call us at 1-312-578-8300. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Advocate Asset Management, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) (click on the link "Investment Adviser Search" and type in our firm name). Results will provide you both Part 1 and 2 of our Form ADV.

We are a registered investment adviser with the Securities and Exchange Commission. Our registration as an Investment Adviser does not imply any level of skill or training. The oral and written communications we provide to you, including this Brochure, is information you should use to evaluate us (and other advisers) which are factors in your decision to hire us or to continue to maintain a mutually beneficial relationship.

Brochure Date: March 28, 2011

## ITEM 2 – MATERIAL CHANGES

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### 1. Initial Filing on 3/31/2011:

- a. This is our initial filing of what we regard as “The New Part 2” of our Form ADV. This document was developed in response to new requirements adopted and imposed by the Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940 (IA Act). As a result, this Disclosure Brochure is substantially different from previous versions and includes disclosures not specifically required by the Old Part II.
  - b. As a result, this Brochure should be considered materially new although you will recognize most of the disclosures as similar or identical to what you have read in the past. New Disclosures in this document include those items previously not requested, including:
    - i. New Disclosure 1
    - ii. New Disclosure 2
    - iii. New Disclosure 3, and
    - iv. The elimination of Part II, Pages 1-6 (the old check the box pages).
2. In future filings, this section of the Brochure will address only those “material changes” that have been incorporated since our last delivery or posting of this document on the SEC’s public disclosure website (IAPD) [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).
3. We may, at any time, update this Brochure and either send you a copy or offer to send you a copy (either by email or in hard copy form).
4. If you would like another copy of this Brochure, please download it from the SEC Website as indicated above or you may contact our Chief Compliance Officer.

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### **Description of Advisory Services**

Our sole business is managing client assets with full investment discretion (in other words, authority to make investment decisions based upon each client's investment objectives). The firm has been in business since 2001.

Our investment strategy is divided into four main elements:

- Asset Allocation
- Style Allocation
- Sector Allocation
- Security Selection

### **Types of Advisory Services**

We manage assets on a fully discretionary basis. We do not have any supervisory relationships wherein we recommend changes to client portfolios subject to approval by the client. We do not provide “financial planning” advice. We do work in a coordinated fashion with our clients’ attorneys and accountants at clients’ requests. Our view is that the more we understand about each client’s financial situations, the better job we can do for that client.

### **Discretionary Investment Management**

We establish an investment policy with each client, tailored according to their individual risk profiles, expectations and income requirements. This policy outlines the core asset allocation mix of stocks, bonds and other asset classes with agreed-upon minimum and maximum levels. Under typical conditions in the economy and the capital markets, we manage their portfolios within these asset allocation boundaries. These policies and asset allocation boundaries are illustrated as part of the Investment Advisory Agreement agreed to and signed by both the client and Advocate.

### **Managed Assets**

As of December 31, 2010, the firm had assets under management of \$85 million, all managed on a fully discretionary basis.

### **Principal Owners**

Advocate has three principals who own the firm. The firm’s owners are Mike Kimbarovsky, David Kudish, and Jo Ann Seagren. There are no intermediate subsidiaries.

## ITEM 5 – FEES AND COMPENSATION

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### **Description**

Fees are asset-based and are related to the size of each client's portfolio and the type of portfolio strategy, as follows:

<u>Strategy</u>	<u>Annual Fee (up to \$4 million portfolio)</u>
Equities	1.0% per year
Balanced	1.0% per year
Fixed Income	0.5% per year

Fees for larger account sizes are scaled downward at various breakpoints in assets (\$4 million, \$7 million, \$10 million, and above \$20 million).

Fees may be negotiable based upon the degree of complexity in the client relationship, the number of portfolios representing the client's assets, related accounts (usually family relationships) and other factors. It is our policy to aggregate a family's portfolio assets for fee determination purposes.

### **Fee Billing**

Fee invoices are mailed out about four weeks after the beginning of a calendar quarter (based on the prior quarter's ending market values) and are payable within thirty days.

The client has full control as to how fees are paid. Fees may be paid directly by check by the client or debited from the client's portfolio at the custodian, coincident with the invoice mailings. If fees are debited from the client's portfolio, we will notify the client's custodian of the amount of the fee due and payable to us through our fee schedule and contract. The custodian does not validate or check our fee. They will deduct the fee from the client's account(s) or, if they have more than one account, from the account the client has designated to pay our advisory fees.

These payment options are part of the Investment Advisory Agreement signed by the client and Advocate. The method of payment may be changed at the discretion of the client at any time. If a change is desired, then the client sends a written request to Advocate. The change is implemented during the following calendar quarter.

### **Other Fees**

We do not have any actual or potential conflicts of interest present that relate to any additional and un-disclosed compensation from client assets that we manage.

Fees payable to us do not include all the fees paid when we purchase or sell securities. The following list of fees or expenses are what clients pay directly to third parties, whether a security is being purchased, sold or held in client account(s) under our management. They are paid to the broker, custodian, fund or other investment clients hold. The fees include:

- Custodial fees
- Brokerage commissions such as transaction fees
- Exchange fees and SEC fees
- Advisory fees and administrative fees charged by funds

We do not have or employ anyone who receives (directly or indirectly) any compensation from the purchase or sale of securities or investments that are purchased or sold or to which we provide investment advice. As a result, we are a “fee only” investment adviser.

### **Termination of Advisory Agreements and Fee Refunds**

Advocate’s services may be terminated by either party one day after the receipt of a properly executed, written notice to the other party. Any transactions made prior to termination will be settled.

In the event that a client terminates the relationship with Advocate, we prorate the fee for the period under management. This is calculated by multiplying the applicable quarterly fee rate (the annual fee divided by four) by a fraction the numerator of which is the number of days under management that quarter and the denominator being the number of days during that quarter (assumed to be 90 days).

Any fees paid by the client in advance and not earned by Advocate as of the termination date are refunded to the client within 15 business days after the termination date. Any fees earned by Advocate but not yet paid by the client are due Advocate within 15 days after the termination date.

## ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

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We do not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

However, the nature of asset-based fees allows us to participate in the growth of the client's wealth. This also means that our fees would decline should the client's portfolio decline in value.

## ITEM 7 – TYPES OF CLIENTS

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We provide our services to a variety of clients:

- Individuals, including high net worth individuals
- Trusts, estates and charitable organizations
- Corporations or other business entities
- Not-for-profit entities

**Analysis**

Security analysis methods include fundamental analysis and to a lesser extent, technical analysis. The main sources of information include independent research reports from outside research firms, financial newspapers and magazines, filings with the Securities and Exchange Commission, and annual reports.

**Investment Strategies**

We manage portfolios concentrated in equities, fixed-income securities and balanced portfolios (a mix between the equity and fixed-income asset classes). We manage all-capitalization portfolios in the domestic and international capital markets. In making investment decisions, we incorporate factors such as macro market valuation metrics, investor sentiment (behavioral characteristics), and non-consensus thinking. Asset allocation considerations underlie our entire investment process. Other important decision components are allocations to sectors and styles among the different geographical regions in which we invest. Currently, we use primarily low-cost exchange traded funds (ETFs) to implement our strategy.

We make a reasoned response to adjust client asset allocation as major market-trend changes occur. We use a core/satellite approach that maintains a core component within each asset class, coupled with an underweight/overweight bias toward specific industries, asset classes and global sectors. The core is defined as the Neutral Exposure Policy (NEP), which we develop with our clients. The satellite component is a variance from the NEP that allows us to vary client exposures to capital market opportunities and risks within pre-defined limits.

**Risk of Loss**

All investment in securities includes a risk of loss of principal (invested amount) and any profits that have not been realized (the securities were not sold to “lock in” the profit). Stock markets, bond markets fluctuate substantially over time. In addition, as recent global and domestic economic events have underscored, performance of any investment is not guaranteed. There is a risk of loss of the assets we manage that may be beyond our control. We will do our very best in the management of client assets; however, we cannot guarantee any level of performance or that clients will not experience a loss of portfolio assets.

## ITEM 9 – DISCIPLINARY INFORMATION

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We do not have any legal, financial or other disciplinary item to report. We are obligated to disclose any disciplinary event that would be material to clients and prospective clients when evaluating us to initiate a client relationship, or to continue a client relationship with us.

This statement applies to our firm, and every employee within our firm.

## ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

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### **Activities**

We do not participate in any other industry business activities. We value our total independence as an additional strength in serving the best interests of our clients.

### **Affiliations**

We do not have arrangements that are material to our business or its clients with any affiliated person.

### **General Partner of Limited Partnership**

We are the general partner of a limited partnership fund, Advocate Partners L.P, that invests primarily in the equity markets. This brochure is not a solicitation to buy or sell limited partnership interests in this fund. Such a solicitation can only be made with a Confidential Information Memorandum.

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

Advocate may recommend that clients invest in securities (such as exchange-traded funds) in which Advocate's principals or staff may also have invested or intend to invest.

## ITEM 11 – CODE OF ETHICS

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As required by regulation (and because it's good business), we have adopted a Code of Ethics ("Code") that governs a number of potential conflicts of interest we may have when providing our advisory services. The key points are putting the clients' interest first, objectivity, confidentiality, competence, fairness and suitability, integrity and honesty, regulatory compliance, full disclosure, and professionalism.

An additional benefit of our Code is to detect and prevent violations of securities laws, including the obligations we owe to clients. Our Code is comprehensive, is distributed to each employee at the time of hire, and annually thereafter (if there are changes). We also supplement the Code with on-going monitoring of employee activity. Our Code includes requirements related to the confidentiality of the client and the following:

- Prohibitions on:
  - Insider trading (if we are in possession of material, non-public information)
  - Rumor mongering
  - The acceptance of gifts and entertainment that exceed our policy standards
- Requirements for:
  - Reporting of gifts and business entertainment
  - Pre-clearance of employee and firm transactions
  - Reporting (on an on-going and quarterly basis) all personal securities transactions ("reportable securities" as mandated by regulation)

On an annual basis, we require all employees to re-certify to our Code, identify members of their household and any account to which they have a beneficial ownership (they "own" the account or have "authority" over the account), securities held in certificate form and all securities they own at that time.

Our Code does not prohibit personal trading by employees (or our firm). As a professional investment adviser, we follow our own advice. As a result, we may purchase or sell the same or similar securities (or securities that are suitable for an employee or related account but not suitable for any client) at the same time we place transactions for clients.

Clients may request a complete copy of our Code by contacting us at the address, telephone or email on the cover page of this document.

### **Selection of Broker-Dealers**

In selecting a broker for any transaction or series of transactions, we evaluate a wide range of criteria, including prior performance in serving clients. We have no financial connections to any broker-dealer. We attempt to obtain the best execution possible on every transaction, coincident with the market conditions that exist at the time of the transaction.

### **Commission Rates Paid**

We have the discretionary authority to negotiate the commission rates paid on clients' transactions. Our sole criterion in selecting broker-dealers is "best execution." However, best execution is not always synonymous with the lowest cents-per-share commission rate. On any particular transaction, other factors, such as avoiding large market impact, may affect the overall quality of the execution, the price paid or received per share, and the brokerage commission cost per share.

### **Limitation on Authority to Conduct Transactions**

In a general way, we are limited in our authority by each client's investment guidelines. These are client-specified boundaries that are consistent with the client's risk orientation. Within these boundaries, we are generally not restricted in terms of the types of securities selected for the portfolio or the quantity of securities transacted on behalf of a specific client.

### **Block trading**

We believe that clients' best interests are maximized when trading in a security is handled in an efficient and low-cost manner. When possible, we conduct trading by consolidating the trading of multiple client portfolios into one or a few orders. This is known as "block trading". By using block trades, we are also better able to trade with top brokerage firms at competitive commission rates.

### **Soft-Dollar Transactions**

"Soft-dollar" transactions involve the advisor using client commissions to pay for research and other relevant services related to the process of making investment decisions. The net effect is that the client ends up paying (in effect, subsidizing) a higher commission rate for each transaction.

We do not pay nor do we receive soft dollars.

**Directed Brokerage**

Advocate does not permit clients to direct brokerage on their accounts to their preferred brokers.

**Principal Trading**

While some or most transactions trade on an exchange, other securities trade between dealers known as “market makers”. There is no disclosed commission rate on these types of transactions; the “spread” between the dealer’s bid price and its offer price represent its potential profit on the transaction. When we need to execute dealer transactions, we attempt to execute dealer transactions with the same objective of best execution. We do not have any financial dealings with market makers.

**ITEM 13 – REVIEW OF ACCOUNTS**

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**Periodic Reviews**

Formal account reviews are conducted after the end of each calendar quarter, but often monthly on a less formal basis. Periodic reviews are conducted with the client in conjunction with client meetings, a material addition or withdrawal of assets from the account, a change in the client’s financial circumstances or condition, or a change in the client's mission or investment objectives.

All portfolios are reviewed by our principals, including the Chief Compliance Officer.

**Regular Reports**

Portfolio performance is internally measured monthly and reported to clients after each calendar quarter. Performance is compared relative to a range of industry accepted and appropriate indexes and benchmarks, and is reported net of our fees and net of any underlying investment expenses. These indexes and benchmarks are typically jointly agreed to with each client (and incorporated into the Investment Advisory Agreement) as relevant measures in advance of the measurement process.

Periodically (usually on a calendar-quarter schedule), we prepare and forward market letters, investment opinion pieces, and economic analyses to clients so that clients are kept abreast of our investment strategy and advice.

## ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION

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### **Incoming Referrals**

Referrals come from current clients, attorneys, accountants, employees, personal friends of employees and other sources. The firm does not currently pay for these types of referrals.

We intend to set up fee sharing arrangements with other firms where we would pay a portion of our investment management fee to the referring person or firm. This would not result in any higher fee to the client than if the client had invested directly with us without a referral.

### **Referrals to Other Professionals**

We do not accept referral fees or any form of remuneration from other professionals when we refer a prospect or client to them.

## ITEM 15 – CUSTODY

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### **Account Statements**

Client assets are held at qualified custodians. These custodians provide account statements directly to clients at their address of record (or provide electronic access in lieu of mailings) at least monthly. Occasionally, qualified clients may invest in partnerships where we are the general partner. For example, Advocate Partners L.P. In these cases, custodian statements are generally not provided to the clients directly, although in compliance with regulations, there is an annual audit conducted by an independent outside audit firm. The results of this audit are forwarded to each client.

Clients are encouraged to carefully review all statements provided by their custodians.

### **Statements Provided by Advocate Asset Management, LLC**

Clients are provided internally-generated portfolio statements on a quarterly basis. Clients are urged to compare the statements they receive from us to those they receive from their qualified custodians.

### **SEC “Custody”**

According to a ruling by the Securities and Exchange Commission, investment advisers are deemed to have “custody” of client funds if certain conditions are met. We are technically considered to have “custody” of certain types of clients, such as Advocate Partners L.P. In this case, an independent outside audit firm conducts an annual audit of these client assets, in compliance with SEC requirements.

## ITEM 16 – INVESTMENT DISCRETION

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### **Discretionary Authority for Trading**

We accept discretionary authority to manage securities accounts on behalf of clients. We have the authority to determine, without obtaining specific client consent but within the investment guidelines determined with each client, the securities to be bought or sold, and the amount of the securities to be bought or sold.

### **Limited Power of Attorney**

Clients must sign a limited power of attorney before we are given discretionary authority. The limited power of attorney is included in the qualified custodian's account application for each custodian.

## ITEM 17 – VOTING CLIENT SECURITIES

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### **Proxy Votes**

Unless the client designates otherwise, we vote proxies for securities over which we maintains discretionary authority consistent with our proxy voting policy. We do not envision voting proxies on behalf of clients. Our investment strategy is focused on investing client assets in commingled funds and securities that do not retain or require proxy voting rights (such as exchange-traded-funds) on issues other than voting for Board nominees or the annual retention of an auditing firm.

However, if we do invest in securities that retain and require proxy voting rights, in accordance with SEC Rule 206(4)-6, we have established the following policies and procedures.

Advocate will receive proxies and vote each proposal, including any proposal that involves a conflict of interest between us and our clients, in the best interests of the client. We will make recommendations based on our knowledge of general issues and procedural changes common to our investments. In situations where we perceive a material conflict of interest, we will inform and then send the proxies directly to the client for his voting decision.

We are responsible for maintaining appropriate proxy voting records. Such records include, but are not limited to, a copy of all materials returned to the issuer and/or its agent, the documentation described above, listings of proxies voted by issuer and by client, and any other relevant information.

Clients may request copies of their proxy voting records by contacting us either via email at [info@advocateam.com](mailto:info@advocateam.com) or at 312-578-8300.

**Financial Condition**

We do not have any financial impairment that would preclude the firm from meeting contractual commitments to clients. A balance sheet is not required to be provided because we do not serve as a custodian for client funds or securities, other than as described in this document, and we do not require prepayment of fees of more than \$1,200 per client, six months or more in advance.

**Supervised Persons**

Mike Kimbarovsky  
Advocate Asset Management, LLC  
55 W. Monroe, Suite 910  
Chicago, IL 60603  
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mkimbar@advocateam.com

David Kudish  
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Jo Ann Seagren  
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jseagren@advocateam.com

This brochure supplement provides information about Mike Kimbarovsky, David Kudish and Jo Ann Seagren and supplements the main brochure. Clients and prospective clients should have received a copy of the main brochure. Please contact us if you did not receive the main brochure or if you have any questions about the contents of this supplement.

Additional information about Mike Kimbarovsky, David Kudish and Jo Ann Seagren may be available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

As of December 31, 2010.

**Mike Kimbarovsky**

Born 1973

Educational Background

Northwestern University, 1996, B.A. in Economics

University of Chicago, 2003, Masters of Business Administration

Business Experience

Advocate Asset Management, LLC

Principal, 2005 – Present

Chief Compliance Officer, March 2003 – Present

Prior to Advocate, Mike was a partner at Extensio, which provided product development and advisory work for the financial services industries, including brokerage, asset management and proprietary trading.

Prior to Extensio, Mike was the President of Hedge Fund Research Inc, which was an investment advisory and research firm for institutional portfolio management in alternative investments.

Disciplinary Information: None

Other Professional Activities: None

Additional Compensation: None

Supervision: Mike's compliance-related activities are supervised by David Kudish. David consults with Mike on investment advisory work during frequent telephone interactions. David's contact information is [dkudish@advocateam.com](mailto:dkudish@advocateam.com) and 312-578-8300 x201.

**David Kudish**

Born 1943

Educational Background

University of Rochester, 1965, B.S. Chemical Engineering

University of Minnesota, 1967, M.S. Chemical Engineering

Harvard Business School, 1996, Entrepreneurial Management

Business Experience

Advocate Asset Management, LLC

Founder and Principal, 2001 – Present

Prior to Advocate, David was Founder, President, CEO & Chairman of Stratford Advisory Group, Inc., which provided traditional investment consulting to institutional investors including setting investment

policies, performing asset allocation modeling, selecting investment managers, and measuring performance.

Prior to Stratford, David was a Founder & Managing Partner of the investment consulting practice at Hewitt Associates.

Disciplinary Information: None

Other Professional Activities: Investment advisor to Kudish Investments Limited Partnership (a family limited partnership with no outside investors).

Additional Compensation: None

Supervision: David's compliance-related activities are supervised by Mike Kimbarovsky. Mike consults with David on investment advisory work during frequent telephone interactions. Mike's contact information is [mkimbar@advocateam.com](mailto:mkimbar@advocateam.com) and 312-578-8300 x202.

### **Jo Ann Seagren**

Born 1965

#### Educational Background

University of Southern California, 1986, B.S. in Business

#### Business Experience

Advocate Asset Management, LLC

Principal, 2010 – Present

Director of Client Development, 2007 - Present

Prior to Advocate, Jo Ann worked at Towle & Company, a boutique micro-cap investment advisory firm in St. Louis, where she was instrumental in expanding assets under management to full capacity. Before that, she worked for LaSalle Partners (now Jones Lang LaSalle) in marketing and client relations for Fortune 500 clients.

Disciplinary Information: None

Other Professional Activities: Assistant Treasurer of The Fortnightly of Chicago, where she oversees several portfolios and works with outside professional portfolio managers to determine the asset allocation of the funds.

Additional Compensation: None

Supervision: Jo Ann's compliance-related activities are supervised by Mike Kimbarovsky. Mike consults with Jo Ann on client communications and investment advisory work and has frequent office interactions. Mike's contact information is [mkimbar@advocateam.com](mailto:mkimbar@advocateam.com) and 312-578-8300 x202.