

# Disclosure Brochure

July 6, 2011

## **Sanderson Wealth Management, LLC**

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of Sanderson Wealth Management, LLC (hereinafter "Sanderson"). If you have any questions about the contents of this brochure, please contact James Warner at (716) 566-2420. 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 Sanderson Wealth Management, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Sanderson Wealth Management, LLC is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## **Item 2. Material Changes**

This Item discusses only the material changes that have occurred since Sanderson's last annual update dated March 31, 2010. Sanderson does not have any material changes to disclose in this Item.

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### Supervised Person Brochure Supplements

## Item 4. Advisory Business

Founded in June 2001 by principal John R. Sanderson (and providing advisory services since July 2001), Sanderson offers financial planning, investment consulting, and investment management services, focusing on developing asset allocations, performing due diligence, selecting managers, monitoring those managers, reviewing overall performance and performing periodic rebalancing. As of January 1, 2011, Sanderson had \$460,180,700 in assets under management, all of which were managed on a non-discretionary basis.

Prior to engaging Sanderson to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with Sanderson setting forth the terms and conditions under which Sanderson renders its services (collectively the “*Agreement*”).

This Disclosure Brochure describes the business of Sanderson. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of Sanderson’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on Sanderson’s behalf and is subject to Sanderson’s supervision or control.

### Financial Planning and Consulting Services

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Sanderson may provide its clients with a broad range of comprehensive financial planning and consulting services. These services generally include retirement planning, education planning, and goal planning, as well as other areas requested by the client. Sanderson’s financial planning services are generally offered as part of its overall wealth management services, while its investment consulting services are rendered separately.

In performing its services, Sanderson is not required to verify any information received from the client or from the client’s other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. Sanderson may recommend the services of itself, and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if Sanderson recommends its own services. The client is under no obligation to act upon any of the recommendations made by Sanderson under a financial planning or consulting engagement or to engage the services of any such recommended professional, including Sanderson itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of Sanderson’s recommendations. Clients are advised that it remains their responsibility to promptly notify Sanderson if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising Sanderson’s previous recommendations and/or services.

## Investment Management Services

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Clients can engage Sanderson to manage all or a portion of their assets on a non-discretionary basis. In addition, Sanderson may provide clients with wealth management services which may include a broad range of comprehensive financial planning services in addition to its non-discretionary asset management.

Sanderson primarily allocates clients' investment management assets among mutual funds, but may also utilize ETFs and/or *Independent Managers* (as defined below). In addition, Sanderson may recommend that clients who are "accredited investors" as defined under Rule 501 of the Securities Act of 1933, as amended, invest in private placement securities, which may include debt, equity, and/or pooled investment vehicles when consistent with the clients' investment objectives. Sanderson also provides advice about any type of investment held in clients' portfolios.

Sanderson also may render non-discretionary investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that may not be held by the client's primary custodian. In so doing, Sanderson either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

Sanderson tailors its advisory services to the individual needs of clients. Sanderson consults with clients initially and on an ongoing basis to determine risk tolerance, time horizon and other factors that may impact the clients' investment needs. Sanderson ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify Sanderson if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon Sanderson's management services. Clients may impose reasonable restrictions or mandates on the management of their account if, in Sanderson's sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

## Use of Independent Managers

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As mentioned above, Sanderson recommends that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain independent investment managers ("*Independent Managers*"), based upon the stated investment objectives of the client. The terms and conditions under which the client engages the *Independent Managers* are set forth in a separate written agreement between Sanderson or the client and the designated *Independent Managers*. Sanderson renders services to the client relative to the non-discretionary recommendation of *Independent Managers*. Sanderson also monitors and reviews the account performance and the client's investment objectives.

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Sanderson receives an annual advisory fee which is based upon a percentage of the market value of the assets being managed by the designated *Independent Managers*.

When recommending an *Independent Manager* for a client, Sanderson reviews information about the *Independent Manager* such as its disclosure brochure and/or material supplied by the *Independent Manager* or independent third parties for a description of the *Independent Manager's* investment strategies, past performance and risk results to the extent available. Factors that Sanderson considers in recommending an *Independent Manager* include the client's stated investment objectives, management style, performance, reputation, financial strength, reporting, pricing, and research. The investment management fees charged by the designated *Independent Managers*, together with the fees charged by the corresponding designated broker-dealer/custodian of the client's assets, may be exclusive of, and in addition to, Sanderson's investment advisory fee set forth above. As discussed above, the client may incur additional fees than those charged by Sanderson, the designated *Independent Managers*, and corresponding broker-dealer and custodian.

In addition to Sanderson's written disclosure brochure, the client also receives the written disclosure brochure of the designated *Independent Managers*. Certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than Sanderson. In such instances, Sanderson may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

## Item 5. Fees and Compensation

Sanderson offers its services on a fee basis, which may include hourly fees as well as fees based upon assets under management.

### Consulting Fees

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Sanderson does not charge a separate fee for financial planning, but may charge an hourly fee for consulting services. These fees are negotiable, but generally range from \$150 to \$350, depending upon the level and scope of the services and the professional rendering the consulting services.

Prior to engaging Sanderson to provide consulting services, the client is required to enter into a written agreement with Sanderson setting forth the terms and conditions of the engagement. Generally, Sanderson requires payment upon completion of the agreed-upon services, but may furnish the client with milestone billing during the course of the project.

### Investment Management Fee

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Sanderson provides investment management services for an annual fee based upon a percentage of the market value of the assets being managed by Sanderson. Sanderson's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. Sanderson does not, however, receive any portion of these commissions, fees, and costs.

Sanderson's annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by Sanderson on the last day of the previous quarter. The annual fee varies (up to 1.00%) depending upon the market value of the assets under management and the type of investment management services to be rendered. As further disclosed in response to Item 7, Sanderson imposes a minimum annual fee of \$5,000.

Sanderson, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

### Fees Charged by Financial Institutions

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As further discussed in response to Item 12 (below), Sanderson generally recommends that clients utilize the brokerage and clearing services of Fidelity Institutional Wealth Services ("*Fidelity*"), Charles Schwab Institutional ("*Schwab*"), HSBC Private Bank ("*HSBC*"), and JP Morgan Chase ("*JP Morgan*").

Sanderson may only implement its investment management recommendations after the client has arranged for and furnished Sanderson with all information and authorization regarding accounts with

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appropriate financial institutions. Financial institutions include, but are not limited to, *Fidelity*, *Schwab*, *HSBC*, and/or *JP Morgan*, any other broker-dealer recommended by Sanderson, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the “*Financial Institutions*”).

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties such as fees charged by *Independent Managers* (as defined below), custodial fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund’s prospectus (e.g., fund management fees and other fund expenses), 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. Additionally, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to Sanderson’s fee.

Sanderson’s *Agreement* and the separate agreement with any *Financial Institutions* may authorize Sanderson or *Independent Managers* to debit the client’s account for the amount of Sanderson’s fee and to directly remit that management fee to Sanderson or the *Independent Managers*. Any *Financial Institutions* recommended by Sanderson have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Sanderson. Alternatively, clients may elect to have Sanderson send an invoice for payment.

### **Fees for Management During Partial Quarters of Service**

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For the initial period of investment management services, the fees are calculated on a *pro rata* basis. If assets are deposited into or withdrawn from an account after the inception of a quarter, the fee payable with respect to such assets will generally not be adjusted or prorated based on the number of days remaining in the quarter. In limited circumstances, and as agreed to with the client, Sanderson may prorate its fees based on deposits or withdrawals.

The *Agreement* between Sanderson and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. Sanderson’s fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to Sanderson’s right to terminate an account. Additions may be in cash or securities provided that Sanderson reserves the right to liquidate any transferred securities or decline to accept particular securities into a client’s account. Clients may withdraw account assets on notice to Sanderson, subject to the usual and customary securities settlement procedures. However, Sanderson designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client’s investment objectives. Sanderson may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.



### **Item 6. Performance-Based Fees and Side-by-Side Management**

Sanderson does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

## Item 7. Types of Clients

Sanderson provides its services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

### Minimum Account Size

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As a condition for starting and maintaining a relationship, Sanderson generally imposes a minimum portfolio size of \$500,000. In addition, Sanderson imposes a minimum annual fee of \$5,000.

Sanderson, in its sole discretion, may accept clients with smaller portfolios or waive its minimum fee based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities. Sanderson only accepts clients with less than the minimum portfolio size if, in the sole opinion of Sanderson, the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance. Sanderson may aggregate the portfolios of family members to meet the minimum portfolio size.

Additionally, certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than Sanderson. In such instances, Sanderson may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

## Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

### Methods of Analysis

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Sanderson's primary method of analysis is Modern Portfolio Theory.

*Modern Portfolio Theory* is a theory on how risk-averse investors can construct portfolios to optimize or maximize expected return based on a given level of market risk, emphasizing that risk is an inherent part of higher reward. Modern Portfolio Theory seeks to construct an optimal portfolio by considering the relationship between risk and return, especially as measured by alpha, beta, and R-squared.

### Investment Strategies

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In developing client portfolios, Sanderson primarily uses mutual funds, but may also allocate a portion of a client's assets to *Independent Managers*. After reviewing a client's profile and tolerance for risk, Sanderson proposes investment recommendations and allocations for the client.

Primarily, Sanderson recommends clients invest in a well diversified set of mutual funds, incorporating large cap, mid cap, small cap companies in addition to including core and growth objectives. These mutual funds may include both domestic and international securities. Sanderson may also use some less traditional mutual funds, including REIT funds, commodity funds, emerging market debt funds, high yield and multi-sector bond funds, and alternative strategy mutual funds. On a limited basis, client portfolios may also include ETFs.

### Risks of Loss

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#### *Mutual Funds and Exchange Traded Funds (ETFs)*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

### *Use of Independent Managers*

Sanderson may recommend the use of *Independent Managers* for certain clients. Sanderson will continue to do ongoing due diligence of such managers, but such recommendations relies, to a great extent, on the *Independent Managers* ability to successfully implement their investment strategy. In addition, Sanderson does not have the ability to supervise the *Independent Managers* on a day-to-day basis other than as previously described in response to Item 4, above.

### *Use of Private Collective Investment Vehicles*

Sanderson may recommend the investment by certain clients in privately placed collective investment vehicles (some of which may be typically called “hedge funds”). The managers of these vehicles will have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. The hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is an absence of regulation. There are numerous other risks in investing in these securities. The client will receive a private placement memorandum and/or other documents explaining such risks.

### *Management Through Similarly Managed Accounts*

Sanderson may manage portfolios by allocating portfolio assets among various mutual funds on a discretionary basis using one or more of its proprietary investment strategies (collectively referred to as “*investment strategy*”). In so doing, Sanderson buys, sells, exchanges and/or transfers shares of mutual funds based upon the *investment strategy*.

Sanderson’s management using the *investment strategy* complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides similarly managed accounts, such as the *investment strategy*, with a safe harbor from the definition of an investment company.

Securities in the *investment strategy* are usually exchanged and/or transferred without regard to a client’s individual tax ramifications. Certain investment opportunities that become available to Sanderson’s clients may be limited. As further discussed in response to Item 12B (below), Sanderson allocates investment opportunities among its clients on a fair and equitable basis.

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*Use of Margin* To the extent that a client authorizes the use of margin, and margin is thereafter employed by Sanderson in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to Sanderson will not be increased.

While the use of margin borrowing can substantially improve returns, such use may also increase the adverse impact to which a client's portfolio may be subject. Borrowings will usually be from securities brokers and dealers and will typically be secured by the client's securities and/or other assets. Under certain circumstances, such a broker-dealer may demand an increase in the collateral that secures the client's obligations and if the client were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the client's obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the client's borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the client's profitability.

### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

### **Item 9. Disciplinary Information**

Sanderson is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. Sanderson does not have any required disclosures to this Item.

## Item 10. Other Financial Industry Activities and Affiliations

Sanderson is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. Sanderson has described such relationships and arrangements below.

### **Related Certified Public Accountants**

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Sanderson does not render accounting advice nor tax preparation services to its clients. Rather, to the extent that a client requires accounting advice and/or tax preparation services, Sanderson, if requested, will recommend the services of a certified public accountant, all of which services are rendered independent of Sanderson pursuant to a separate agreement between the client and the certified public accountant. Sanderson does not receive any of the fees charged by any recommended certified public accountant, referral or otherwise.

Specifically, the individual members of Sanderson, Messrs. Sanderson and Warner as well as certain of its *Supervised Persons*, are also principals or employees of Sanderson Wealth Management CPAs, LLC ("*SWM*"), a certified public accounting firm located in Buffalo, New York. As discussed above, to the extent that *SWM* provides accounting and/or tax preparation services to any clients, including clients of Sanderson, all such services are performed by *SWM*, in its separate professional capacity, independent of Sanderson, for which services Sanderson does not receive any portion of the fees charged by *SWM*, referral or otherwise. Although Sanderson does not receive referral fees from *SWM*, these individual members of *SWM* are entitled to receive distributions relative to their respective ownership interests in *SWM*.

It is also expected that these members Sanderson, solely incidental to their respective practices as certified public accountants with *SWM*, will recommend Sanderson's services to certain of *SWM*'s clients. Although *SWM* does not receive referral fees from Sanderson, these individual members of Sanderson are entitled to receive distributions relative to their respective ownership interests in Sanderson.

Irrespective of the foregoing, Sanderson may offer to offset all or a portion of the fees charged by *SWM* for its services for those clients that maintain at least one million dollars of assets under the management of Sanderson.

The place of business of *SWM* is the same as that of Sanderson.

## Item 11. Code of Ethics

Sanderson and persons associated with Sanderson (“Associated Persons”) are permitted to buy or sell securities that it also recommends to clients consistent with Sanderson’s policies and procedures.

Sanderson has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws (“*Code of Ethics*”). In accordance with Section 204A of the Investment Advisers Act of 1940 (the “Advisers Act”), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by Sanderson or any of its associated persons. The *Code of Ethics* also requires that certain of Sanderson’s personnel (called “*Access Persons*”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in Sanderson’s *Code of Ethics*, none of Sanderson’s *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of Sanderson’s clients.

When Sanderson is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Sanderson is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact Sanderson to request a copy of its *Code of Ethics*.



## Item 12. Brokerage Practices

As discussed above, in Item 5, Sanderson generally recommends that clients utilize the brokerage and clearing services of *Financial Institutions*.

Factors which Sanderson considers in recommending *Financial Institutions* to clients include their respective financial strength, reputation, execution, pricing, research and service. *Financial Institutions* enable Sanderson to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by the recommended *Financial Institutions* may be higher or lower than those charged by other broker-dealers.

The commissions paid by Sanderson's clients comply with Sanderson's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where Sanderson determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Sanderson seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Sanderson periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct Sanderson in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and Sanderson will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by Sanderson (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Sanderson may decline a client's request to direct brokerage if, in Sanderson's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless Sanderson decides to purchase or sell the same securities for several clients at approximately the same time. Sanderson may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Sanderson's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among Sanderson's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that Sanderson determines to aggregate client orders for the purchase or sale of

securities, including securities in which Sanderson's *Supervised Persons* may invest, Sanderson generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Sanderson does not receive any additional compensation or remuneration as a result of the aggregation. In the event that Sanderson determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, Sanderson may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist Sanderson in its investment decision-making process. Such research generally will be used to service all of Sanderson's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because Sanderson does not have to produce or pay for the products or services.

### **Software and Support Provided by Financial Institutions**

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Sanderson may receive from *Financial Institutions*, without cost to Sanderson, computer software and related systems support, which allow Sanderson to better monitor client accounts maintained at *Financial Institutions*. Sanderson may receive the software and related support without cost because Sanderson renders investment management services to clients that maintain assets at *Financial Institutions*. The software and related systems support may benefit Sanderson, but not its clients directly. In fulfilling its duties to its clients, Sanderson endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Sanderson's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence Sanderson's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

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Additionally, Sanderson may receive the following benefits from *Financial Institutions* through their respective investment adviser divisions: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services the registered investment adviser participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

### Item 13. Review of Accounts

For those clients to whom Sanderson provides investment management services, Sanderson monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom Sanderson provides financial planning and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by one of Sanderson’s investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with Sanderson and to keep Sanderson informed of any changes thereto. Sanderson contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client’s financial situation and/or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom Sanderson provides investment advisory services will also receive a report from Sanderson that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance on a quarterly basis. Clients should compare the account statements they receive from their custodian with those they receive from Sanderson.

Those clients to whom Sanderson provides financial planning and/or consulting services will receive reports from Sanderson summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by Sanderson.

### **Item 14. Client Referrals and Other Compensation**

Sanderson is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services.

Sanderson may receive economic benefits from non-clients for providing advice or other advisory services to clients. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12, above.

In addition, Sanderson is required to disclose any direct or indirect compensation that it provides for client referrals. Sanderson does not provide compensation for client referrals.

### Item 15. Custody

Sanderson's *Agreement* and/or the separate agreement with any *Financial Institution* may authorize Sanderson through such *Financial Institution* to debit the client's account for the amount of Sanderson's fee and to directly remit that management fee to Sanderson in accordance with applicable custody rules.

The *Financial Institutions* recommended by Sanderson have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Sanderson. In addition, as discussed in Item 13, Sanderson also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from Sanderson.

### **Item 16. Investment Discretion**

Sanderson is required to disclose if it accepts discretionary authority to manage securities accounts on behalf of clients. Sanderson is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. Sanderson does not exercise discretion on behalf of clients.

## Item 17. Voting Client Securities

Sanderson may vote client securities (proxies) on behalf of its clients. When Sanderson accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully- described in Sanderson's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in Sanderson's Proxy Voting Policies and Procedures, as they may be amended from time-to-time. Clients may contact Sanderson to request information about how Sanderson voted proxies for that client's securities or to get a copy of Sanderson's Proxy Voting Policies and Procedures. A brief summary of Sanderson's Proxy Voting Policies and Procedures is as follows:

- Sanderson has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.
- The Proxy Voting Committee will generally vote proxies according to Sanderson's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, Sanderson devotes an appropriate amount of time and resources to monitor these changes.
- Clients cannot direct Sanderson's vote on a particular solicitation but can revoke Sanderson's authority to vote proxies.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that Sanderson maintains with persons having an interest in the outcome of certain votes, Sanderson takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.



### **Item 18. Financial Information**

Disclosure would be required if Sanderson requires or solicits the prepayment of more than \$1,200 in fees six months or more in advance. In addition, Sanderson is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Sanderson has no disclosures pursuant to this Item.

## **Sanderson Wealth Management, LLC**

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