

# **ASSET ALLOCATION ADVISORS, INC.**

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## **FORM ADV PART 2A BROCHURE**

This brochure provides information about the qualifications and business practices of Asset Allocation Advisors, Inc., a registered investment advisor. If you have any questions about the contents of this brochure, please contact us by phone or email. 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 Asset Allocation Advisors, Inc. is also available on the United States Securities and Exchange Commission's website at [www.Advisorinfo.sec.gov](http://www.Advisorinfo.sec.gov). The IARD/CRD number for Asset Allocation Advisors, Inc. is 110336.

Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.



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## Advisory Services

**Asset Allocation Advisors, Inc.** (“Advisor”) offers portfolio investment management services to meet the needs of its Clients. Compensation is based on a percentage of assets under management and is fully described on the following page in the section “Fees and Compensation.”

**Asset Management:** Asset Allocation Advisors, Inc. (“Advisor”) manages investment accounts for Clients on a continuous, discretionary basis. Investments selected to implement the Advisor’s investment strategy for Clients are primarily no-load and load-waived mutual funds chosen to create a diversified portfolio with an asset allocation that is deemed by Advisor to be appropriate in relation to the Client’s circumstances and investment objectives.

**Investment Policy Statement:** Each Client is required to enter into a written, mutually agreed upon Investment Policy Statement (“IPS”) that outlines the Client’s investment objectives, basic investment strategy and guidelines for pursuing the Client’s objectives, and a measurable, objective means to evaluate account performance relative to an appropriate benchmark.

**Investment Advisory Agreement:** Each Client is required to enter into a written Investment Advisory Agreement with Asset Allocation Advisors, Inc. prior to the commencement of investment management services. Clients have five business days after signing an Investment Advisory Agreement to cancel it, without penalty or incurring management fees. Notice of cancellation must be made by written or email contact with the Advisor. After five (5) business days, either the Client or Asset Allocation Advisors, Inc. may terminate the Investment Advisory Agreement upon ten (10) days written notice. Any unearned portion of that quarter’s fee will be refunded on a prorated basis.

**Nature and Frequency of Regular Reports to Clients on Their Accounts:** Client will receive monthly statements from their custodian (a third party qualified custodian as defined by SEC Rule 206(4)-2) and timely broker confirmations of purchases and sales of investment positions executed by Asset Allocation Advisors, Inc. In addition, Asset Allocation Advisors, Inc. will provide each Client with quarterly statements showing each individual investment position, quantity, share price, and market value at the end of each calendar quarter. Also provided each quarter are the actual portfolio performance and the performance of the Client’s selected appropriate benchmark, as identified in the Client’s written Investment Policy Statement, for the prior full quarter and year, a quarterly invoice including the calculation and amount of management fees, and a written commentary discussing investment tactics, strategies, financial market developments, and/or some other topic Asset Allocation Advisors, Inc. deems relevant to investing and important to its Clients.

**Quarterly “Open Client Meetings”:** Asset Allocation Advisors, Inc. and its owner/managers intend to conduct quarterly meetings (“Open Client Meeting”) for the purpose of interacting with clients in an open forum to discuss concerns and interests, elicit their comments, review financial market developments, and disseminate financial ideas and information to clients and other interested individuals at no cost. Asset Allocation Advisors, Inc. has conducted such meetings since 1988.

## Fees and Compensation

**Investment Management Fees:** Fees for investment management services are based on a layered fee schedule that results in a declining average annual percentage rate fee for accounts that exceed \$250,000. The larger the account value, the lower the annual overall percentage rate. The layered fee schedule is based on the value of the account managed and is:

<u>Assets Under Management</u>	<u>Annual Fee Rate</u>
up to \$250,000	1.50%
and balance above \$250,000 up to \$500,000	1.25%
and balance above \$500,000 up to \$1,000,000	1.00%
and balance above \$1,000,000	0.50%

**Billing and Payment of Fees:** Fees are billed quarterly, in advance, based upon the portfolio value on the last day of the prior quarter. No billing adjustment is made for interim fluctuations in account value, although Advisor will adjust the billing with regard to material interim additions or withdrawals from an account. Asset Allocation Advisors, Inc. prefers to have fees paid directly by the custodian of the Client's account upon billing by the Advisor. Clients that choose this arrangement will be mailed an invoice detailing the computation and amount of their quarterly management fee, followed by the Advisor's presentment of such fee to the custodian of their funds for payment from Client's account. Advisor's management fees are separate from fees and expenses charged by mutual funds, brokers, and the custodian of a Client's account. The Client or Asset Allocation Advisors, Inc. may terminate the Investment Advisory Agreement upon ten (10) days written notice, and any unearned portion of that quarter's fee paid will be refunded on a prorated basis.

**Account Minimums:** A minimum account value of \$250,000 will normally be considered for management, although Asset Allocation Advisors, Inc. reserves the right and sole discretion to service or decline an offered account. Accounts below the stated minimums may be accepted on an individual basis at the discretion of Asset Allocation Advisors, Inc. For accounts in excess of \$1,000,000 and/or in certain or unusual situations, the fee schedule described above may be negotiated.

**No Performance Based Fees:** Asset Allocation Advisors, Inc. does not charge fees based on a share of profits, capital gains or capital appreciation of the assets managed for Clients.

**No Referral Fees or Fee-sharing:** Asset Allocation Advisors, Inc. does not pay referral fees or engage in fee-sharing or other compensation of any kind to any person or company for referring clients to the firm.

**Assets Under Management:** As of March 1, 2011, Asset Allocation Advisors, Inc. managed assets totaling \$119,216,969: \$99,819,558 on a discretionary basis and \$19,397,411 on a supervisory basis.

## **Types of Clients**

Asset Allocation Advisors, Inc. provides investment advisory services to individuals, couples, trusts and retirement accounts. The majority of accounts managed are tax-sheltered retirement plans, primarily IRAs and IRA Rollover accounts for individuals. Asset Allocation Advisors, Inc. may also accept accounts for corporations and other businesses.

## **Types of Investments**

Asset Allocation Advisors, Inc. constructs portfolios that consist primarily of no-load and load-waived mutual funds that are commonly classified as “balanced funds.” Balanced funds consist of a diversified mix of stocks, bonds, cash and other types of securities and assets. In special circumstances portfolios may also contain individual stocks and bonds, exchange-traded funds (“ETFs”), preferred stocks, convertible bonds, certificates of deposits, cash or cash equivalents, and other securities as deemed appropriate and agreed upon with individual Clients.

## **Mutual Funds and Expenses**

All mutual funds and exchange-traded funds have operating expenses that are separate and in addition to investment advisory fees charged by Asset Allocation Advisors, Inc. and applicable brokerage commissions or custodial expenses, if any. The objectives, investment strategies, share classes, and types of securities utilized by various mutual funds vary widely, as do their operating expenses. The types and amounts of operating expenses vary for each specific fund and are fully disclosed in the prospectus that each mutual fund provides to each of its shareholders. Asset Allocation Advisors, Inc. does not receive, directly or indirectly, any portion of mutual fund operating expenses. Mutual funds may make certain distributions that are taxable to their shareholders (except in the instance of tax-qualified accounts such as IRAs and Pension accounts.) Certain mutual funds and/or the custodian of a Client account may charge redemption fees for selling shares within a finite period of time. If so, redemption charges are deducted directly from the sale proceeds of such mutual fund and as such are a direct expense to the Client. Asset Allocation Advisors, Inc. does not receive, directly or indirectly, any portion of redemption charges levied by mutual funds or the custodian.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

**Methods of Analysis:** Asset Allocation Advisors, Inc. utilizes fundamental analysis that incorporates regulatory required publications and filings, third party research and data, and a proprietary mutual fund screening and selection process. This process uses advanced statistical and analytical tools to evaluate risk-reward characteristics of an investment on an absolute basis and in relation to other similar investments, and evaluate the potential contribution an investment might have individually and in conjunction with a portfolio of other investments. Although there can be no assurance that the Advisor will be successful in achieving Clients' investment objectives, and past performance of investments selected for Client portfolios does not guarantee future performance, Asset Allocation Advisors, Inc. endeavors to identify top performing mutual funds for multi-year periods, on a risk-adjusted basis, from a predetermined universe of candidates deemed by Asset Allocation Advisors, Inc. to be appropriate and suitable in relation to a Client's written Investment Policy Statement.

**Investment Strategy:** Our investment strategy embraces a balanced approach to investing, relying upon a diversified mix of stocks, bonds, cash and other types of assets. Portfolios are constructed primarily of no-load and load-waived mutual funds that are classified as balanced mutual funds. We believe that windows of investment opportunity open and close as economies and investment markets change and seek mutual fund managers that engage in proactive management and security selection. The goal of our investment strategy, which may or may not be attained, is to harness the brains, research and abilities of a select team of mutual fund managers with investment objectives similar to ours, with the intention of achieving investment results that are superior to the average performance of a composite of similar balanced mutual funds. No assurance can be given that this strategy will succeed. Past performance does not guarantee or assure that future returns or future outcomes will be successful or similar to past results.

**Risk of Loss:** Investing in securities involves a risk of loss of capital that cannot be ascertained in advance. Investment results cannot be assured or guaranteed. Investments purchased for Clients can and will fluctuate in value. Therefore, no assurances can be made about the future value of an investment(s). Anyone that is not willing to possibly incur a loss of capital should not invest.

## Disciplinary Information

Asset Allocation Advisors, Inc., its managers, officers, owners or representatives have not been nor are they currently involved in a criminal action or securities related civil action in a domestic, foreign or military court of competent jurisdiction. Asset Allocation Advisors, Inc., its managers, officers, owners or representatives:

1. have not been convicted of, or 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;
2. have not been 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 offenses;
3. have not been found to have been involved in a violation of an investment-related statute or regulation; and
4. have not been the subject of any order, judgment, or decree permanently or temporarily enjoining, or otherwise limiting, our firm or a management person from engaging in any investment-related activity, or from violating any investment-related statute, rule, or order.

Asset Allocation Advisors, Inc., its managers, officers, owners or representatives have not been involved in an administrative proceeding before the United States Securities and Exchange Commission, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority. Asset Allocation Advisors, Inc., its managers, officers, owners or representatives:

1. have not been found to have caused an investment-related business to lose its authorization to do business; and
2. have not been found to have been involved in a violation of an investment-related statute or regulation and have not been the subject of an order by the agency or authority: (a) denying, suspending, or revoking the authorization of Asset Allocation Advisors, Inc. or one of its managers, officers or owners to act in an investment-related business; (b) barring or suspending Asset Allocation Advisors, Inc. or one of its managers, officers or owners association with an investment-related business; (c) otherwise significantly limiting Asset Allocation Advisors, Inc. or one of its managers, officers or owners investment-related activities; or (d) imposing a civil money penalty of more than \$2,500 on Asset Allocation Advisors, Inc. or one of its managers, officers or owners.

Asset Allocation Advisors, Inc., its managers, officers, owners or representatives have not been involved in an administrative proceeding before a self-regulatory organization ("SRO") proceeding. Asset Allocation Advisors, Inc., its managers, officers, owners or representatives:

1. have not been found to have caused an investment-related business to lose its authorization to do business; and
2. have not been found to have been involved in a violation of the SRO's rules and have not been:  
(a) barred or suspended from membership or from association with other members, or expelled from membership; (b) otherwise significantly limited from investment-related activities; or (c) fined more than \$2,500.

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

Investment Advisor Representatives of Asset Allocation Advisors, Inc. (Gregory E. Schultz and Bruce D. Grenke) are also Registered Principals with Retirement Planning, Inc. ("RPI"), a securities broker-dealer. Gregory E. Schultz, an officer, owner, manager and Investment Advisor Representative ("IAR") of Asset Allocation Advisors, Inc. ("Advisor"), is a Registered Principal and owner of RPI. Bruce D. Grenke, an officer, owner, manager and IAR of Asset Allocation Advisors, Inc., is a Registered Principal of RPI. Clients of RPI may, in some instances, also seek the services of Asset Allocation Advisors, Inc. and vice versa. Securities transactions in accounts managed by Asset Allocation Advisors, Inc. are transacted through securities firms other than RPI and do not result in compensation to RPI. Clients may, outside of their advisory accounts with the Advisor, elect to participate in non-discretionary securities transactions through RPI without a fee paid to Asset Allocation Advisors, Inc. In such cases, Schultz and Grenke receive compensation from RPI as a result of their affiliation with RPI.

Investment Advisor Representatives of Asset Allocation Advisors, Inc. (Gregory E. Schultz and Bruce D. Grenke) are also licensed insurance agents with Schultz Financial & Insurance Services, Inc. ("SFIS"). Gregory E. Schultz, an officer, owner, manager and IAR of Asset Allocation Advisors, Inc., is a licensed agent and co-owner of SFIS. Bruce D. Grenke, an officer, owner, manager and IAR of Asset Allocation Advisors, Inc., is a licensed agent and co-owner of SFIS. Clients of SFIS may, in some instances, also seek the services of Asset Allocation Advisors, Inc. and vice versa. Asset Allocation Advisors, Inc. does not purchase or sell insurance products in accounts managed by Asset Allocation Advisors, Inc. Clients may, outside of their advisory accounts with Asset Allocation Advisors, Inc., elect to participate in non-discretionary insurance transactions through SFIS without a fee paid to Asset Allocation Advisors, Inc. In such cases, Schultz and Grenke receive compensation from SFIS as a result of their affiliation with SFIS.

All business activities of Asset Allocation Advisors, Inc.'s IARs are disclosed in writing to the Asset Allocation Advisors, Inc. Compliance Officer in conjunction with its annual compliance meeting. Although Investment Advisor Representatives may receive compensation from these activities, clients are in no way obligated to obtain other financial services (e.g., purchase of securities and/or insurance) from Asset Allocation Advisors, Inc.'s Investment Advisory Representatives.

## **Code of Ethics and Business Conduct, Participation or Interest in Client Transactions, and Personal Trading**

**Code of Ethics and Business Conduct:** The Board of Directors of Asset Allocation Advisors, Inc. has adopted a Code of Ethics and Business Conduct in connection with its oversight of the management and business affairs of Asset Allocation Advisors, Inc. and the ethical conduct of every officer and employee.

Asset Allocation Advisors, Inc.'s Clients depend on the firm to be trustworthy, honest and loyal to their interests as provided in Asset Allocation Advisors, Inc.'s agreements with them. Each Advisory Representative is expected to strive to act at all time in accordance with fundamental principles of openness, integrity, and honesty. In addition, Allocation Advisors, Inc. and its Advisory Representatives have certain legal obligations to conduct themselves as fiduciaries and adhere to applicable federal securities laws including the rules and regulations adopted under the Investment Advisors Act.

Each Investment Advisor Representative of Asset Allocation Advisors, Inc. receives a copy of the Code of Ethics and Business Conduct and must acknowledge in writing that he or she has received it. A copy of Asset Allocation Advisors' Code of Ethics and Business Conduct is available upon request.

**Participation or Interest in Client Transactions:** Asset Allocation Advisors, Inc. has adopted policies and procedures that restrict officers and employees from directly or indirectly buying or selling for their own (or related) accounts, any securities recommended to Clients unless such transactions are at least two days before or after Clients' primary positions have been placed, except in the instance of open-end investment company shares (mutual funds), exchange traded funds (ETFs), and United States Treasury obligations. The Advisor's pension plan, "Asset Allocation Advisors, Inc. Profit Sharing Trust," Mr. Schultz and Mr. Grenke, either directly and/or indirectly, invest in substantially the same investments selected for client accounts. This is also known as "we eat our own cooking."

Asset Allocation Advisors, Inc. is an independent, fee-only investment management firm and has no proprietary interests in any investments recommended to Clients.

**Personal Trading:** Asset Allocation Advisors, Inc., its officers and advisory representatives may purchase the same securities that are recommended to Clients. It is the policy of Asset Allocation Advisors, Inc. to not permit associated persons to trade in a manner that takes advantage of price movements caused by clients' transactions. Asset Allocation Advisors, Inc. will put its Clients' needs first and will follow all related securities regulations in executing the securities trades.

## Brokerage Practices

**Brokerage Commissions:** Asset Allocation Advisors, Inc. uses its judgment and discretion to determine which specific securities, and the quantities of such securities, will be purchased for Clients, utilizing uniform brokerage commission schedules (of which Advisor does not receive any portion of) available to all Clients of Asset Allocation Advisors, Inc., and thereby neither favoring nor disfavoring any individual Client.

Brokers effecting transactions for Clients will be selected by Asset Allocation Advisors, Inc. and will be paid brokerage commissions from the Clients' accounts at levels to be determined by Advisor in consideration of availability of numerous no-load and load-waived mutual funds, special execution capabilities, cost and time saving electronic interface systems, reputation, financial strength and stability.

**Recommended Brokerage:** Based on Asset Allocation Advisors, Inc.'s perception of the breadth of services offered, the quality and cost of order execution, Asset Allocation Advisors, Inc. recommends that Clients use Charles Schwab as their broker for discretionary transactions in managed accounts. Asset Allocation Advisors, Inc. is not compensated or endorsed by Charles Schwab for such recommendation. Schwab Advisor Services provides Asset Allocation Advisors, Inc. with access to its institutional trading and operations services, which are typically not available to Schwab retail customers, and includes mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment or carry a sales load that is waived for its Institutional clients.

**Lowest Commission Rates Not Guaranteed:** Although Asset Allocation Advisors, Inc., does not have control over the pricing policies of the broker, the firm endeavors to obtain commission schedules for Clients that are better than commission schedules available to non-institutional retail investors using the same broker. However, notwithstanding these efforts, the client may pay commissions or fees that are higher or lower than those that may be obtained from other broker-dealers for similar services.

**No "Soft Dollar" Arrangements:** Asset Allocation Advisors, Inc. does not use Client brokerage commissions (or markups or markdowns) to obtain research or other products or services from Schwab or anyone else. Asset Allocation Advisors, Inc. does not engage in "soft dollar" arrangements that allow the adviser to pay for or receive research or research-related services from a broker or third-party provider, in addition to the normal execution of transactions, in exchange for brokerage commissions from transactions for Client accounts. Restated, Asset Allocation Advisors, Inc. is an independent fee-only investment advisor that does not receive cash or other compensation, either directly or indirectly to the firm or any person associated with or employed by the firm, from non-clients in connection with giving advice to Clients or the selection of various investments for Clients or in exchange for directing Client accounts to a broker.

## **Review of Accounts**

Each account is managed to the asset allocation, policies and guidelines as determined by the Client's written Investment Policy Statement and Asset Allocation Advisors, Inc. ("Advisor") and its Advisor Representatives. Investment positions are monitored on a continuous basis. Client accounts are reviewed monthly or more frequently if warranted. The asset allocation mix of each account is reviewed periodically to assure conformance with guidelines set forth in the Client's written Investment Policy Statement. For an account in which a Client receives scheduled periodic cash distributions, cash availability is reviewed as frequently as needed to facilitate uninterrupted cash distributions. Each investment position is evaluated monthly to assess its contribution and effectiveness toward meeting Client investment objectives. In addition, each mutual fund investment is further reviewed periodically for its consistency in abiding by stated investment objectives, investment process, continued appropriateness and suitability for Clients, and qualification for inclusion among the Advisor's investment selections, as determined by Advisor. Special circumstances, including but not limited to changes in a Client's circumstances, or dramatic financial market and/or economic events, may activate additional non-routine reviews of a Client's account and/or specific holdings in a Client's portfolio. Mr. Schultz and Mr. Grenke, the owners, officers, managers and Investment Advisor Representatives of the firm, share responsibility and involvement in the discussion and execution of investment tactics and account reviews for all accounts managed by Asset Allocation Advisors, Inc.

## **Client Referrals and Other Compensation**

Asset Allocation Advisors, Inc. does not pay compensation of any kind to any person or company, directly or indirectly, for the referral of Clients. Asset Allocation Advisors, Inc. and its employees do not engage in activities, such as sales contests or incentives, with non-clients to gain economic benefits.

## **Custody**

**Custody of Funds:** Asset Allocation Advisors, Inc. does not maintain custody of funds or securities held in Clients' accounts. Assets held in a Client's account will not be held by or be in the name of the Advisor. Advisor is authorized to select or engage one or more qualified custodians, including brokerage firms, banks or trust companies as custodians for assets held in a Client's account. Advisor is not liable for any act, error or omission to act by account custodian. In essence, the custodian of a Client's account (e.g., Schwab) serves as an independent third party that holds a Client's assets for safe-keeping, analogous to the role of a title company holding funds in escrow if you were to buy or sell a property. It is important that the custodian of Client assets is separate from the investment manager making decisions to buy and sell investments.

## **Investment Discretion**

**Advisor Discretion to Buy and Sell Investments:** Advisor maintains limited discretion and limited power of attorney in Client accounts held at a custodial broker-dealer by which Advisor has discretion to buy and sell investments in Client's account without first consulting the Client prior to executing the purchase or sale. This is in contrast to a non-discretionary account in which Advisor would only purchase or sell an investment after obtaining Client's prior approval.

**Limited Power of Attorney:** Each Client enters into an Investment Advisory Agreement whereby Client authorizes Advisor to be the Client's agent and attorney-in-fact and conduct transactions in the Client's account, at the discretion of Advisor, including all other actions necessary or incidental to the execution of such transactions. Advisor is not authorized to withdraw or direct disbursement of assets from the account other than in connection with Client payment of management fees as described earlier in "Fees and Compensation." All withdrawals made by a Client from their account must be authorized by the Client, either in writing or verbally directly with the Custodian of their account. Advisor will provide all forms to Client, as needed, but only the custodian has authority to disburse funds to Client.

## **Voting Client Securities**

**Proxy Voting:** Asset Allocation Advisors, Inc., as a matter of policy and practice, does not have nor will it accept authority to vote proxies on behalf of advisory Clients.

## Financial Information

Advisor management fees are billed quarterly in advance. In no case will Advisor bill or hold management fees in advance for a period of six months or more and therefore is not required to file financial information with the Securities & Exchange Commission or state of California where Advisor is domiciled.

## Additional Information

**Business Continuity Plan (Emergency/Business Resumption Plans):** Asset Allocation Advisors, Inc. has developed a Business Continuity Plan ("BCP") that addresses the possibility of a future significant business disruption and how we plan to respond to events of varying scope and impact. An off-site parallel computer system, creating back-up functionality with full data backup of the records of Clients' securities transactions with our firm have been readied at a location outside of Walnut Creek. Our Business Continuity Plan is designed with the objective of ensuring the integrity and continuity of our systems, including customer data management, as well as continuity of Client services. While no contingency plan can eliminate all risks of a business disruption, our intent is to mitigate all reasonable risks and their impact to our Clients and we are confident our current plans are reasonably adequate to protect our Clients' records and the services we provide to Clients, as well as Asset Allocation Advisors, Inc.'s business interests.

**Anti-Money Laundering Procedures:** To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account. What this means to you: When you open an account, we will ask for your name, address, date of birth, and other information that will allow us to identify you. We may also ask to see a current government issued identification including your driver's license or other identifying documents.

**Education and Business Standards:** Asset Allocation Advisors, Inc. requires that all associated Advisor Representatives or related persons (other than clerical or ministerial personnel) that provide investment advice have a college education or at least twenty-five years investment work experience.

The co-owners of Asset Allocation Advisors, Inc. are Gregory E. Schultz and Bruce D. Grenke. They have worked together since 1985 and co-founded the firm in 1987. In addition to being the firm's co-owners, they also serve as the firm's Investment Advisor Representatives and, as a team, manage client portfolios, perform investment research, counsel Clients, and attend to the needs of their Clients.