

## **Firm Brochure**

(Part 2A of Form ADV)

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This brochure provides information about the qualifications and business practices of S.F. Ehrlich Associates, Inc. If you have any questions about the contents of this brochure, please contact us at 908 789-1100, or by email at [stan@sfehrlich.com](mailto:stan@sfehrlich.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities agency.

Additional information about S.F. Ehrlich Associates, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

March 18, 2011

## Material Changes

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### Annual Update

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

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### Material Changes since the Last Update

The U.S. Securities and Exchange Commission issued a final rule in July 2010 requiring advisers to provide a Firm Brochure in narrative “plain English” format. The new final rule specifies mandatory sections and organization.

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### Full Brochure Available

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at 908 789-1100 or [stan@sfehrlich.com](mailto:stan@sfehrlich.com). You may also review a copy at our website: [www.sfehrlich.com](http://www.sfehrlich.com).

# Table of Contents

<b>Material Changes</b> .....	<b>i</b>
Annual Update .....	i
Material Changes since the Last Update .....	i
Full Brochure Available .....	i
<b>Advisory Business</b> .....	<b>1</b>
Firm Description .....	1
Principal Owners .....	1
Types of Advisory Services .....	1
Tailored Relationships .....	2
Types of Agreements .....	2
Financial Planning Agreement .....	2
Retainer Agreement .....	3
Asset Management .....	3
Termination of Agreement .....	3
<b>Fees and Compensation</b> .....	<b>4</b>
Description .....	4
Fee Billing .....	4
Other Fees .....	4
Expense Ratios .....	4
Past Due Accounts and Termination of Agreement .....	4
<b>Performance-Based Fees</b> .....	<b>5</b>
Sharing of Capital Gains .....	5
<b>Types of Clients</b> .....	<b>5</b>
Description .....	5
Account Minimums .....	5
<b>Methods of Analysis, Investment Strategies and Risk of Loss</b> .....	<b>6</b>
Methods of Analysis .....	6
Investment Strategies .....	6
Risk of Loss .....	6

<b>Disciplinary Information .....</b>	<b>7</b>
Legal and Disciplinary .....	7
<b>Other Financial Industry Activities and Affiliations.....</b>	<b>7</b>
Financial Industry Activities .....	7
Affiliations.....	7
<b>Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....</b>	<b>8</b>
Code of Ethics.....	8
Participation or Interest in Client Transactions .....	8
Personal Trading.....	8
<b>Brokerage Practices .....</b>	<b>8</b>
Selecting Brokerage Firms .....	8
Best Execution .....	8
Soft Dollars.....	9
Order Aggregation.....	9
<b>Review of Accounts .....</b>	<b>9</b>
Periodic Reviews.....	9
Review Triggers .....	9
Regular Reports .....	9
<b>Client Referrals and Other Compensation .....</b>	<b>10</b>
Incoming Referrals .....	10
Referrals Out.....	10
Other Compensation .....	10
<b>Custody .....</b>	<b>10</b>
Account Statements .....	10
Performance Reports .....	10
<b>Investment Discretion .....</b>	<b>10</b>
Discretionary Authority for Trading.....	10
Limited Power of Attorney .....	11
<b>Voting Client Securities .....</b>	<b>11</b>
Proxy Votes.....	11

<b>Financial Information .....</b>	<b>11</b>
Financial Condition.....	11
<b>Business Continuity Plan .....</b>	<b>11</b>
General .....	11
Disasters .....	11
Alternate Offices.....	11
Loss of Key Personnel .....	12
<b>Information Security Program .....</b>	<b>12</b>
Information Security .....	12
Privacy Notice .....	12
<b>Brochure Supplement (Part 2B of Form ADV) .....</b>	<b>14</b>
Education and Business Standards .....	14
Qualifications.....	14

# Advisory Business

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## Firm Description

S.F. Ehrlich Associates, Inc ("S.F. Ehrlich") was founded in 1996.

S.F. Ehrlich provides personalized, confidential financial planning and investment management to individuals. Advice is provided through consultation with the client and may include: determination of financial objectives, identification of financial problems, cash flow management, investment management, education funding, and retirement planning.

S.F. Ehrlich is strictly a fee-only financial planning and investment management firm. The firm does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. The firm is not affiliated with entities that sell financial products or securities. No commissions in any form are accepted. No finder's fees are accepted.

Clients sign *Investment Policy Statements* that detail how their assets will be invested. S.F. Ehrlich does not act as a custodian of client assets. The client always maintains asset control. S.F. Ehrlich places trades for clients under a limited power of attorney.

Through the use of financial planning software, an assessment is made to determine the probability that clients can achieve their financial goals. After client assets are invested, periodic reviews are conducted to determine progress toward their objectives based upon changes in savings, portfolio performance, spending, etc.

Other professionals (e.g., lawyers, accountants, insurance agents, etc.) are engaged directly by the client on an as-needed basis. Conflicts of interest will be disclosed to the client in the unlikely event they should occur.

The initial meeting, which may be by telephone or in-person, is free of charge and is considered an exploratory interview to determine the extent to which financial planning and investment management may be beneficial to the client.

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## Principal Owners

Stanley F Ehrlich is the sole owner of S.F. Ehrlich.

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## Types of Advisory Services

S.F. Ehrlich provides investment supervisory services, also known as asset management services. On more than an occasional basis, S.F. Ehrlich furnishes advice to clients on matters not involving securities, such as financial planning.

As of February 28, 2011, S.F. Ehrlich manages approximately \$63,000,000 in assets on a discretionary basis for approximately 48 clients.

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**Tailored Relationships**

The goals and objectives for each client are documented in our client relationship management system and/or financial planning program. Clients complete a *Data Survey Form* which is then followed by an *Investment Policy Statement* that reflects their stated goals and objectives. Clients may impose restrictions on investing in certain securities or types of securities.

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**Types of Agreements**

Agreements may not be assigned without client consent. The following agreements define the typical client relationships.

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**A. Financial Services Agreement**

The *Financial Services Agreement* includes both financial planning as well as asset management.

The first step in the financial planning process is data collection, which is designed to provide essential information for the preparation of a cash flow retirement plan.

The financial plan may include, but is not limited to: a net worth statement; a cash flow statement; a review of investment accounts, to include asset allocation and repositioning recommendations; a review of retirement accounts and plans to include recommendations; a review of life insurance and recommendations for changes, if necessary; one or more retirement scenarios; and education planning with funding recommendations (as/if necessary).

Realistic and measurable goals are set and objectives to reach those goals are defined. As goals and objectives change over time, suggestions are made and implemented on an ongoing basis.

The scope of work and fee for a *Financial Services Agreement* is provided to the client in writing prior to the start of the relationship. After an initial, fixed, six-month retainer fee, the fee schedule for clients is:

1.00% on the first \$1,000,000 of assets under management;

0.75% on assets in excess of \$1,000,000

Fees are billed quarterly, in arrears, with the minimum annual fee \$5000. Fees are negotiable, and current client relationships may exist where the fees are higher or lower than the fee schedule above.

Although the *Financial Services Agreement* is an ongoing agreement and constant adjustments are required, the length of service to the client is at the client's discretion. The client or the investment manager may terminate an *Agreement* by written notice to the other party. At termination, fees will be billed on a pro rata basis for the portion of the quarter completed. The portfolio value at the completion of the prior full billing quarter is used as the

basis for the fee computation, adjusted for the number of days during the billing quarter prior to termination.

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**B. Retainer Agreement**

In some circumstances, a *Retainer Agreement* is executed in lieu of a *Financial Services Agreement* when it is more appropriate to work on a fixed-fee basis to complete a limited scope of work. The fee for a *Retainer Agreement* is negotiable and is dependent upon the work to be performed for the client.

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**Asset Management**

Assets are invested primarily in no-load or low-load mutual funds and exchange-traded funds, usually through a custodian such as Charles Schwab. Fund companies charge each fund shareholder an investment management fee that is disclosed in the fund prospectus. Custodians may charge a transaction fee for the purchase of some funds.

Stocks and bonds may be purchased or sold through a brokerage account when appropriate. The brokerage firm charges a fee for stock and bond trades. S.F. Ehrlich does not receive compensation, in any form, from fund companies or brokerage firms.

Other investments may also include corporate debt securities, commercial paper, certificates of deposit, municipal securities, and U. S. government securities. Additional investment classes may be added if/when necessary and will be communicated to clients.

Initial public offerings (IPOs) are not available through S.F. Ehrlich.

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**Termination of Agreement**

A client may terminate an agreement at any time by notifying S.F. Ehrlich in writing and paying the fee for the time spent on the engagement prior to notification of termination. If the client made an advance payment, S.F. Ehrlich will refund any unearned portion of the advance payment.

S.F. Ehrlich may terminate an agreement at any time by notifying the client in writing. If the client made an advance payment, S.F. Ehrlich will refund any unearned portion of the advance payment.

# Fees and Compensation

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## Description

After the initial six-month fixed fee, S.F. Ehrlich calculates its fees on a percentage of assets under management.

Some *Retainer Agreements* may be priced based on the complexity of work, especially when asset management is not the most significant part of the relationship.

Fees are negotiable.

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## Fee Billing

Asset management fees are billed quarterly, in arrears, meaning that we invoice you after the three-month billing period has ended. Payment in full is expected upon invoice presentation. Fees are usually deducted from a designated client account to facilitate billing. (Clients must consent in advance to direct debiting of their investment account.)

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## Other Fees

Custodians may charge transaction fees on purchases or sales of certain mutual funds and exchange-traded funds. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security.

S.F. Ehrlich, in its sole discretion, may waive its minimum fee and/or charge a lesser investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.).

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## Expense Ratios

Mutual funds generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 0.50 means that the mutual fund company charges 0.5% for their services. These fees are in addition to the fees paid by you to S.F. Ehrlich.

Performance figures quoted by mutual fund companies in various publications are after their fees have been deducted.

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## Past Due Accounts and Termination of Agreement

S.F. Ehrlich reserves the right to stop work on any account that is more than 60 days overdue. In addition, S.F. Ehrlich reserves the right to terminate any agreement where a client has willfully concealed or has refused to provide pertinent information about their financial situation when necessary and

appropriate, in S.F. Ehrlich's judgment, to providing proper financial advice. Any unused portion of fees collected in advance will be refunded within 30 days.

## **Performance-Based Fees**

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### **Sharing of Capital Gains**

Fees are not based on a share of the capital gains or capital appreciation of managed securities.

S.F. Ehrlich does 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.

## **Types of Clients**

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### **Description**

S.F. Ehrlich generally provides investment advice to individuals. Relationships vary in scope and length of service.

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### **Account Minimums**

The minimum account size is \$500,000 of assets under management, which equates to an annual fee of \$5000.

If an account falls below \$500,000 in value due to market performance, the minimum annual fee will be reduced to 1.00% of the account value.

S.F. Ehrlich has the discretion to waive the account minimum. Accounts of less than \$500,000 may be established when the client and the advisor anticipate the client will add additional funds to the accounts bringing the total to \$500,000 within a reasonable time. Other exceptions may apply to friends or relatives of existing clients, or as deemed appropriate.

Clients receiving ongoing asset management services will be assessed a \$5000 minimum annual fee. Clients with assets below the minimum account size may pay a higher percentage rate on their annual fees than the fees paid by clients with greater assets under management.

# Methods of Analysis, Investment Strategies and Risk of Loss

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## Methods of Analysis

Security analysis methods may include charting, fundamental analysis, technical analysis, and cyclical analysis.

The main sources of information include financial newspapers and publications, research materials prepared by others, and professional conferences.

Other sources of information that S.F. Ehrlich may use include Morningstar, the Schwab Institutional website, and miscellaneous other websites.

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## Investment Strategies

The primary investment strategy used on client accounts is strategic asset allocation utilizing a core and satellite approach. This means that we use passively-managed mutual funds and exchange-traded funds as the core investments, and then add actively-managed funds where there are greater opportunities to make a difference. Portfolios are globally diversified to control the risk associated with traditional markets.

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time. Each client executes an *Investment Policy Statement* that documents their objectives and their desired investment strategy.

Other strategies may include long-term purchases, short-term purchases, and periodic rebalancing.

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## Risk of Loss

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind, and a portfolio optimization program is utilized to try to reduce portfolio risk. Regardless, virtually all investors face the following investment risks:

- **Interest-rate Risk:** Changes in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.

- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. Treasury Bills, for example, are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

## **Disciplinary Information**

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### **Legal and Disciplinary**

The firm and its employees have not been involved in legal or disciplinary events related to past or present investment clients.

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

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### **Financial Industry Activities**

S.F. Ehrlich is a Registered Investment Advisor. The term Registered Investment Advisor does not imply approval or review by any governmental agency.

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### **Affiliations**

S.F. Ehrlich has no affiliations with any broker/dealers and does not pay any person or entity to refer clients.

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

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## Code of Ethics

The employees of S.F. Ehrlich have committed to a Code of Ethics that is available for review by clients and prospective clients upon request. The firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

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## Participation or Interest in Client Transactions

S.F. Ehrlich and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades and must follow procedures outlined in the firm's Insider Trading Policy.

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## Personal Trading

The Chief Compliance Officer of S.F. Ehrlich is Stanley F Ehrlich. He reviews all employee trades each quarter.

The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm receive preferential treatment. Since most employee trades are small mutual fund trades or exchange-traded fund trades, the trades do not affect the securities markets.

# Brokerage Practices

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## Selecting Brokerage Firms

S.F. Ehrlich does not have any affiliation with product sales firms. Specific custodian recommendations are made to clients based on their need for such services. S.F. Ehrlich recommends custodians based on the proven integrity and financial responsibility of the firm and the best execution of orders at reasonable commission rates.

S.F. Ehrlich recommends discount brokerage firms and trust companies (qualified custodians), such as Charles Schwab & Co. While S.F. Ehrlich is authorized to trade for its clients at the Charles Schwab Institutional platform, S.F. Ehrlich does not receive fees, commissions, or client referrals from this arrangement.

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## Best Execution

S.F. Ehrlich reviews the execution of trades at each custodian each week and the fees are noted in the weekly trading ledger. As previously noted, S.F. Ehrlich does not receive any portion of the trading fees.

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**Soft Dollars**

As with all advisory firms who trade through the institutional platform of Charles Schwab & Co, S.F. Ehrlich is allowed to utilize research materials on the institutional platform. (Other custodians, such as Fidelity and TD Ameritrade, offer similar materials to advisory firms who trade on their platforms.)

S.F. Ehrlich receives no credits or compensation from Charles Schwab & Co by referring clients to use that firm as a custodian.

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**Order Aggregation**

Most trades involve mutual funds or exchange-traded funds where trade aggregation does not garner any client benefit.

## **Review of Accounts**

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**Periodic Reviews**

Account reviews are performed by Stanley F Ehrlich on a regular basis (i.e. monthly, bi-monthly, quarterly, semi-annually) with larger portfolios reviewed more frequently. (More frequent rebalancing of smaller portfolios would incur a higher percentage of trading fees.) The intent of the reviews is to determine whether portfolios should be rebalanced (i.e. sell portions of positions that have become larger due to gains, and buy positions whose percentage of the portfolio may have gone down). Account reviews may be performed more often when market conditions dictate.

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**Review Triggers**

Other conditions that may trigger a review are changes in the economy, new investment information, significant movements in the equities markets, and changes in a client's own situation.

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**Regular Reports**

Asset management clients receive periodic communications on at least a quarterly basis, and more frequently if market conditions so dictate. These written updates may include a portfolio statement, portfolio performance report, and a summary of fees paid for the previous quarter.

## **Client Referrals and Other Compensation**

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### **Incoming Referrals**

S.F. Ehrlich has been fortunate to receive many client referrals over the years. The referrals came from current clients, accountants, employees, personal friends, and other similar sources. The firm does not compensate referring parties for these referrals.

### **Referrals Out**

S.F. Ehrlich does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

### **Other Compensation**

S.F. Ehrlich only receives compensation from clients.

## **Custody**

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### **Account Statements**

All assets are held at a qualified custodian, which means the custodian provides account statements, at least quarterly, directly to clients at their address of record.

### **Performance Reports**

Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided by S.F. Ehrlich.

## **Investment Discretion**

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### **Discretionary Authority for Trading**

S.F. Ehrlich accepts discretionary authority to manage securities accounts on behalf of clients. S.F. Ehrlich has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of securities to be bought or sold.

The client approves the custodian to be used. Commissions for trades are paid directly to the custodian; S.F. Ehrlich does not receive any portion of the transaction fees or commissions paid by the client to the custodian.

Discretionary trading authority facilitates placing trades in client accounts so that we may implement the investment policy that clients approved in writing. Accounts are then rebalanced as/when necessary.

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**Limited Power of Attorney**

A limited power of attorney is a trading authorization for this purpose. Clients sign a limited power of attorney so that we may execute the trades in their account(s).

## **Voting Client Securities**

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**Proxy Votes**

S.F. Ehrlich does not vote proxies on securities. Clients are expected to vote their own proxies.

## **Financial Information**

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**Financial Condition**

S.F. Ehrlich does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because S.F. Ehrlich does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than \$1,200 per client, and six months or more in advance.

## **Business Continuity Plan**

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**General**

S.F. Ehrlich has a Business Continuity Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications, services or key people.

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**Disasters**

The Business Continuity Plan covers natural disasters such as snow storms, hurricanes, tornados, and flooding. The Plan covers man-made disasters such as loss of electrical power, loss of water pressure, fire, bomb threat, nuclear emergency, chemical event, biological event, T-1 communications line outage, Internet outage, railway accident and aircraft accident. Electronic files are backed up daily and archived offsite.

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**Alternate Offices**

An alternate office is identified to support ongoing operations in the event the main office is unavailable. It is our intention to contact all clients within five days of a disaster that dictates moving our office to an alternate location.

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**Loss of Key Personnel**

S.F. Ehrlich has signed a Business Continuation Agreement with two other fee-only financial advisory firms to support S.F. Ehrlich in the event of Stanley F Ehrlich's serious disability or death.

## **Information Security Program**

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**Information Security**

S.F. Ehrlich maintains an information security program to reduce the risk that your personal and confidential information may be breached.

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**Privacy Notice**

S.F. Ehrlich is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of nonpublic information that we collect from you may include information about your personal finances, information about your health to the extent that it is needed for the financial planning process, information about transactions between you and third parties, and information from consumer reporting agencies, e.g., credit reports. We use this information to help you meet your personal financial goals.

With your permission, we disclose limited information to attorneys, accountants, and mortgage lenders with whom you have established a relationship. You may opt out from our sharing information with these nonaffiliated third parties by notifying us at any time by telephone, mail, fax, email, or in person. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf.

We strive to maintain a secure office to ensure that your information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment.

We do not provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our company records and your personal records as permitted by law.

Personally identifiable information about you will be maintained while you are a client, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our privacy policy is expected to change. We are required by law to deliver the *Privacy Notice* to you annually, in writing. The *Privacy Notice* is also available at the firm's website: [www.sfehrlich.com](http://www.sfehrlich.com).

## Brochure Supplement (Part 2B of Form ADV)

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### Education and Business Standards

S.F. Ehrlich requires that advisors in its employ have a bachelor's degree and further coursework demonstrating knowledge of financial planning and management of assets. Examples of acceptable coursework include attendance at industry conferences, academic coursework, or a relevant certification. Additionally, advisors must have work experience that demonstrates their aptitude for financial planning and investment management.

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### Stanley F Ehrlich (b. 1950), Background

Educational Background:

- Syracuse University, BA 1971
- John Jay College, MA 1975
- New York University, MPA 1985
- New York University, ABD 1985

Relevant Business Experience:

- President, S.F. Ehrlich Associates, Inc (1996 – Present)
- Columnist, NAPFA Advisor (2008 – Present)
- Contributing Editor, Cahnners Business Publications (2000 - 2003)
- Columnist, ONSITE (1998 – 2008)
- NAPFA Registered Financial Advisor (National Association of Personal Financial Advisors)
- Associate professor, Raritan Valley Community College
- Adjunct faculty, College of New Jersey

Disciplinary Information: NONE

Other Business Activities: NONE

Additional Compensation: NONE

Arbitration Claims: NONE

Self-Regulatory Organization or Administrative Proceedings: NONE

Bankruptcy Petition: NONE