

# Strategic Wealth Management, LLC

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March 31, 2011

This Brochure provides information about the qualifications and business practices of Strategic Wealth Management, LLC (“Strategic Wealth Management”). If you have any questions about the contents of this Brochure, please contact us at (309) 673-7526 or at [allplan@ameritech.net](mailto:allplan@ameritech.net). 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.

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

Additional information about Strategic Wealth Management, LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated March 31, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require.

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

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#### **Item 4 – Advisory Business**

Strategic Wealth Management started doing business in 1998 under the original name of Alan L. Lee Financial Services. Alan Lee is the sole owner of the firm and is the only person providing advisory services. As of December 31, 2010, services were being provided to 128 clients (individuals or couples) with total assets under management of \$42,799,000. All of these assets are managed on a discretionary basis whereby the advisor has the ability to choose and/or change investments at his discretion, but within the parameters established together with the client.

Strategic Wealth Management's primary focus is providing investment management services to individuals and families. Our core approach is to design and manage a diversified portfolio of open-end mutual funds that is tailored to the individual's situation. To do this we first determine the overall asset allocation for the client, which is the percentage of the total dollars to be assigned to each of the various major asset class categories. For example, how much should be in stocks vs. bonds, international vs. the U.S., etc. We determine these allocations through discussions with the client about their financial goals and objectives, time frames, and tolerance for market risks and volatility. Once the targeted asset allocation or design of the portfolio has been determined with the client, then specific investments are selected to fill each category of the investment portfolio. This asset allocation may change at times based either on changes in the client's personal situation, or due to changes in the overall economic/market conditions.

Other investment approaches that are used include owning of individual securities, and the use of two limited-risk options strategies (Item 8 discusses more on the investment strategies). If a client wants to limit or exclude the use of any of these types of investments in their portfolios, this can be done on the client's direction.

In addition to investment management services, we also can provide clients with financial planning services. This is typically done as requested by the client and there are no additional charges for this service. Financial planning helps us and the client to determine specific goals and to lay out a plan or framework for achieving those goals. For example, a Retirement Plan helps to quantify the amount of assets a client will need to accumulate in order to support their expected financial needs in retirement. This, in turn, helps us to target a savings rate and average rate-of-return that might be needed during the pre-retirement years to reach that goal. Please note that a financial plan is simply a tool and that in doing financial planning there are typically a number of assumptions that are made.

Because of these assumptions, there is always the potential/risk that the plan does not reasonably reflect the actual outcomes.

## **Item 5 – Fees and Compensation**

Strategic Wealth Management charges clients an asset management fee that is established in the written Investment Advisory Agreement signed by the client. While the fee rates are negotiable, the typical annual fee schedule is as follows:

<u>Managed Assets</u>	<u>Annual Percentage</u>
\$ 0 - \$ 99,999	1.00%
\$ 100,000 - \$249,999	0.90%
\$ 250,000 - \$499,999	0.85%
\$ 500,000 - \$999,999	0.80%
\$1,000,000 and over	0.75%

This fee is calculated and charged quarterly, and is based on the total assets being managed as of the quarter-end date. The fee is deducted directly from client accounts, and is shown as a separate line item on the client's monthly account statement. If services begin or end in the middle of a quarter, the management fee will be adjusted pro-rata to reflect the months of service provided.

Strategic Wealth Management's advisory fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which may be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Strategic Wealth Management's advisory fees, and we don't receive any portion of these commissions, fees, and costs.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

Not applicable. Strategic Wealth Management does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## **Item 7 – Types of Clients**

Strategic Wealth Management provides portfolio management services only to individuals, including some high net worth individuals.

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

Strategic Wealth Management uses several different investment types/strategies. Clients should be aware that investing in securities always involves the risk of losses that clients should be prepared to bear.

Strategic Wealth Management's core investment approach is to design and manage a diversified portfolio of open-end mutual funds (Item 4 discusses how the portfolio is designed). These mutual funds are actively managed as opposed to passively managed funds which are typically intended to mirror a particular market index. Because the manager is providing active management, there is the potential to outperform the related index, but there is also the risk that the manager might underperform.

The mutual funds we use in client portfolios are selected based upon our analysis - primarily using purchased research software (Morningstar Principia). The research pool includes all funds that are offered through Charles Schwab's fund program which includes over 12,000 mutual funds from over 500 fund companies. A number of analytical measures are evaluated including such things as average rates of return, alpha (a measure of value added), and beta (a measure of volatility or risk). Essentially our objective is to try and identify those fund managers that have historically shown a track record of outperforming within their asset category and doing so fairly consistently. We then will use several different mutual funds in each of the asset categories of a client's portfolio. Because there is always the risk that a fund manager can underperform within a given time period, using multiple funds or fund managers in each category helps to reduce this "manager risk". While a diversified mutual fund portfolio reduces both the individual company risk and the manager risk, an investor is still always faced with the risks of an overall market decline.

Some other possible risks of using mutual funds include: the manager investing in poor performing companies or industries, commission expenses, transaction fees, and internal fund expenses.

Although investing in individual securities is not the focus of our investment approach, clients can certainly choose to hold them in their portfolios. If individual securities are being held, this is typically due to employer stock rollovers or due to client directed purchases or retentions. When individual stocks are held or being considered for purchase by the client, we will assist them by providing investment information such as analysts' earnings projections, price/earnings ratios, etc. But it is not our focus to research and recommend individual stocks. Holding individual stocks does present "company risk," which is the risk that a companies' stock will lose value or underperform the markets. It is especially important to manage that risk when a client has a high concentration in a particular stock (i.e. – employers stock).

The last general investment approach that we use involves two limited-risk options strategies – "Cash Secured Equity Puts" and "Writing Covered Calls". Both strategies generate additional incomes that tend to lower the risks of equity/stock investing since the incomes help to offset losses if the asset declines in value. Using the "Cash Secured Equity Put" strategy essentially means that an investor receives payment to enter into an agreement to purchase an asset – usually a stock or stock index - at a pre-determined buy price that is typically lower than the current market price. The agreement period is limited (we typically use 3 to 6 months), and cash is set aside to "secure" this position. If at the end of the contract period the asset price is at or below the specified buy price, the cash that was set aside must then be used to buy the stock at the buy price. If the asset price is not at or below the buy price, the agreement expires without having to purchase the asset. Either way the investor keeps the income generated by entering the agreement. If the stock price continues to drop lower than the buy price, then the investor will start incurring losses at the level where the offsetting incomes are no longer sufficient to cover the decline in price. Compared to owning the stock outright, the risks are lowered because of the income being generated and the fact that the stock isn't even owned unless its price declines to the lower buy price. However, the tradeoff is that the upside returns are limited to only the incomes that were generated.

"Writing Covered Calls," on the other hand, is a strategy that can be used to generate additional income from a stock that is already owned. In this case the investor receives payment to enter into a limited-time agreement to sell his shares of that stock at a specified sell price which is typically higher than the current market price. If at the end of the agreement period the market price has reached the sell price, then the shares are sold at that sell price. If not, then the investor keeps his shares and the agreement expires. Either

way the investor keeps the incomes generated by entering the agreement. If the stock declines in value, the investor will begin incurring losses at the point where the incomes generated are no longer sufficient to cover the drop in price. Compared to simply owning the stock and not doing this strategy, the risks are lowered due to the additional incomes that can help offset losses in the event the stock declines in value. However, the tradeoff is that the upside potential during the agreement period is capped at the stock's gain in value up to the sell price plus the incomes generated.

### **Item 9 – Disciplinary Information**

Not applicable. Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the adviser or the integrity of its management. Strategic Wealth Management has no information applicable to this Item.

### **Item 10 – Other Financial Industry Activities and Affiliations**

Not applicable. Strategic Wealth Management does not have any other Business or Financial industry activities or affiliations.

### **Item 11 – Code of Ethics**

Strategic Wealth Management has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading and “tipping”, restrictions on the acceptance of significant gifts, and personal securities trading procedures, among other things. We will provide a copy of our Code of Ethics to any client or prospective client upon request.

Securities that are recommended to clients may also be bought or sold in the Investment Advisor's personal accounts. In principle, this could present a conflict of interest if the trading of a security in a client's account could have a beneficial effect on the holdings in the advisor's accounts due to the size or the ordering of these transactions. We believe that this is not a material risk/concern to our clients because: 1) we primarily trade open-end



mutual funds which is a security that is specifically excluded from the SEC Code of Ethics rule, and is a security where personal trading would not affect pricing, and 2) the share volumes/dollar amounts that we trade are typically not significant relative to the publicly-traded securities being transacted and, therefore, would not materially affect the price of the security. We have a fiduciary duty to only recommend investments to clients that are appropriate to their situation and portfolio. If there were an instance where a conflict could arise, we would try to avoid this conflict and/or put the interests of our clients first.

We do not place aggregated trades or place cross-securities transactions, so any potential conflicts of how these are transacted are avoided.

## **Item 12 – Brokerage Practices**

Strategic Wealth Management uses Charles Schwab & Co, Inc. as the qualified custodian and broker-dealer for client accounts. We require, therefore, that clients working with us should utilize Schwab as the custodian/broker. Not all advisors require their clients to use a specific brokerage. By directing trades to Schwab only, you may not always receive the most favorable trade executions. However, we selected Schwab as the custodian/broker based on our determination that Schwab is competitive in a wide range of factors including breadth of available investment products, availability of investment research and tools, quality of services, competitive pricing of those services, and overall reputation.

By using Schwab as our custodian we receive some “soft-dollar” benefits. These are typically products and services that help us manage and administer client accounts, but for which we don’t directly pay (we are only required to maintain a minimum of \$10 million in assets at Schwab). Some of the soft-dollar benefits we receive include: software and technology systems that allow us to manage client data, execute trades, get market and pricing information, process advisory fees, recordkeeping and client reporting; back office functions related to setting up and maintaining accounts, transferring accounts, etc.; investment research tools and information that includes both Schwab’s own proprietary research and that of third parties; educational conference calls, newsletters and events; discounts on products or services (for example, we purchase Morningstar research software at a discount).

The fact that we receive these benefits presents a potential conflict of interest in our choice of custodian/broker. We believe, however, that these benefits are typical for the industry and that we also had our clients’ interests in mind. Our selection of Schwab is primarily supported by the scope, quality, and pricing of Schwab’s services. These soft-dollar items

are general benefits that are used to help service all clients, and are not allocated pro-rata to certain client accounts.

### **Item 13 – Review of Accounts**

Strategic Wealth Management conducts periodic in-depth portfolio reviews with clients on a regular basis and at a frequency that is determined with the client. In these reviews we update the client's financial information, monitor the investment changes, discuss their asset allocation, and discuss the repositioning of assets as necessary. Each client is scheduled to have this type of review performed annually. Typically, at the 6 month interim point, the same information will be compiled for our review and analysis, but the client and advisor will determine together through a phone call whether there is a need to meet. If not, the client will receive a summary update over the phone. Alan Lee, Owner, is the only person who conducts these reviews.

In addition to the materials discussed in client reviews, clients are also mailed monthly account statements directly from the custodian, Charles Schwab Institutional.

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

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisors whose clients maintain their accounts at Schwab. We are independent from Schwab, and the availability Schwab's products and services to us is not based on us giving particular investment advice, such as buying particular securities for clients.

Strategic Wealth Management will on occasion, and at its discretion, send a thank-you gift certificate to a client who has referred another individual.

### **Item 15 – Custody**

Under government regulations, we are deemed to have custody of your assets if, for example, you authorize us to instruct Schwab to deduct our advisory fees directly from your account. Schwab

maintains actual custody of your assets. You will receive account statements directly from Schwab, typically on a monthly basis but at least quarterly. They will be sent to the email address or the postal mailing address that you provided to Schwab. You should review these account statements carefully when you receive them. We also urge you to compare the Schwab statements to any type of account statement that you receive from us (for example, information provided in client reviews).

## **Item 16 – Investment Discretion**

Strategic Wealth Management typically receives discretionary authority from the client at the outset of the advisory relationship when the account application is completed. This discretionary authority allows us to select the identity and amount of securities to be bought or sold. However, such discretion should at all times be exercised in a manner consistent with the stated investment objectives for the particular client account. In some cases, the client may choose to limit this authority - for example, directing that no additional employer's stock should be purchased.

## **Item 17 – Voting *Client* Securities**

In general, Strategic Wealth Management does not take on the authority to vote client securities on behalf of the client and leaves that responsibility with the client. You may obtain a copy of our complete Proxy Voting Policies and Procedures upon request. In the very limited instances where we have taken on voting responsibility, the client can contact us to obtain information about how proxies have been voted on their behalf.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about their financial condition. Strategic Wealth Management has no financial condition to disclose that is likely to impair its ability to meet contractual and fiduciary commitments to its clients, and we have not been the subject of any bankruptcy proceeding.

### **Item 19 – Requirements for State-Registered Advisers**

Not applicable. Strategic Wealth Management registers with the SEC and not the state.