

**Firm Brochure**  
Dated March 30, 2011

This brochure provides information about the qualifications and business practices of Spectrum Financial Management. If you have any questions about the contents of this brochure, please contact us at 415-472-7300. 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.

Brenda S. Friedlander  
d.b.a. Spectrum Financial Management  
899 Northgate Drive, Suite 305  
San Rafael, CA 94903  
415-472-7300  
[www.spectrumfinancialmgmt.com](http://www.spectrumfinancialmgmt.com)

Additional information about Spectrum Financial Management is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Statement of Material Changes - None

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## **ITEM 4 – ADVISORY BUSINESS**

### **A) Ownership:**

Spectrum Financial Management is a sole proprietorship owned by Brenda Friedlander since July 2003. The firm's founder, Carol Desmond, owned Spectrum Financial Management (a.k.a. Desmond Tax and Financial Consultants) from its inception through June 2003.

### **B) Services:**

We offer investment management services to individuals and trusts. We have an investment minimum of \$500,000. We use an asset allocation investment strategy. Asset allocation is the policy decision that determines how much of your portfolio will be invested in various asset classes.

We follow a five-step investment process that is ongoing and includes the following:

1. A thorough assessment of your needs. Through data gathering meetings and questionnaires we determine: your needs, your objectives, risk tolerance, investment time horizon, liquidity requirements and tax situation.
2. Careful planning of your portfolio. Once we have agreed on your objectives we plan an investment portfolio designed to meet your specific goals with a level of risk you feel comfortable with. We will evaluate the tax consequences and fees of our recommendations.
3. Accurate and timely implementation of the investment plan. Implementation of your investment plan includes the set-up of your accounts, transferring accounts, processing trades and a diligent follow-up process to confirm transaction accuracy.
4. Ongoing review and servicing of your account. Once the investments are made we continue to track and monitor your investment accounts. We review your asset allocation and will re-balance the portfolio when appropriate. We continually monitor the performance of your investment assets and evaluate the effectiveness of the assets at achieving your goals and objectives.
5. An annual review. We will provide you with an annual review that covers your investment performance as well as financial planning and tax issues as they apply to your situation.

### **Other Services:**

Spectrum Financial Management also offers tax preparation and planning services to our clients. Investment management clients are not required to use our tax preparation services. If investment clients choose to prepare their own tax returns or work with a separate accountant or tax preparer, Spectrum Financial Management will provide them with the portfolio tax information necessary to complete the returns.

Spectrum Financial Management also offers financial planning services to its investment clients. Financial planning services can be a single stand-alone analysis or a more comprehensive Retirement Analysis. Stand-alone analyses may include but are not limited to: mortgage analysis, college funding, gifting strategies, cash flow planning, and

real estate analysis. Retirement Analysis is a more comprehensive review of the client's financial circumstances to determine the client's readiness for retirement. When necessary, recommendations will be made in order to improve the outcome of the Retirement Analysis.

C) Investment portfolios are individually tailored to each investment client. Each client's individual circumstances, risk tolerance, goals and objectives dictate the appropriate asset mix. For example, a client in a high tax bracket may be well served by municipal bonds, while a person in a lower tax bracket, may be better served by taxable bonds. Each client's individual preferences for or against a particular asset class or individual asset are respected. As long as that preference does not impair the portfolio's ability to provide the risk/reward tradeoff that we are seeking, we will include or exclude the asset per the client's wishes. Should we believe that the inclusion or exclusion of a particular asset or asset class would materially impact the portfolio, we will discuss this with the client and determine an appropriate compromise.

D) We don't participate in wrap-fee programs.

E) Assets under management, as of December 31, 2010, totaled \$79,852,032. \$76,463,290 of this was managed with discretion and \$3,388,742 was managed without discretion. (See Item 16 – Investment Discretion)

## **ITEM 5 – FEES AND COMPENSATION**

Fees for investment management services include an initial one-time fee of \$500 for planning and set-up, and an annual fee based on a percentage of assets under management. The initial set-up fee is due upon signing our Letter of Engagement. This fee is fully refundable within five days of signing the Letter of Engagement. Beyond that, time will be billed through the termination date; any amount received in excess of billed time will be promptly refunded.

The percentage-based fee is calculated using the following fee schedule:

<u>Account Value</u>	<u>Annual % Fee</u>
From \$0 - \$500,000	1%
From \$500,001 - \$1,000,000	¾ of 1%
Above \$1 million	½ of 1%

The annual fee is billed quarterly in advance. Fees are based upon the value of the account on the last business day of the quarter. For example, the first quarter's fee will be calculated based on the December 31<sup>st</sup> value of the managed assets. Should you choose to terminate investment management services before the end of the quarter, the quarterly fee will be pro-rated through the termination date and any unearned fee will be promptly refunded.

Fees are collected directly from the managed accounts, following the mailing of an invoice that details the fee calculation. At your request, fees can be billed directly to you.

Fees are generally not negotiable; however, from time to time an exception is made based on the client's individual circumstances. Discounts will be given to friends and family members at Ms. Friedlander's discretion.

**Other Fees:**

In addition to investment management fees, clients will be responsible for any transaction fees, account fees, etc. charged by the custodian of their accounts (See Item 12 – Brokerage Practices).

Ms. Friedlander is an Enrolled Agent and her associate Paula Vaughn is a Certified Public Accountant. Both Ms. Friedlander and Ms. Vaughn prepare tax returns and perform tax planning for investment clients. The fee for tax preparation and planning is separate from the investment management fee. The fee for tax preparation and planning is based on an hourly rate and the complexity of the return. The hourly fees for tax preparation range from \$95 to \$210 per hour.

Brenda Friedlander holds a life insurance license and may recommend life, disability, or long-term care insurance. Should clients choose to purchase an insurance product from Ms. Friedlander, she will receive the commission that is customary for such transactions.

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

Spectrum Financial Management does not charge performance based fees or participate in side-by-side management.

**ITEM 7 – TYPES OF CLIENTS**

We offer investment management services to individuals and trusts. Our account minimum is currently \$500,000. We have had lower account minimums in the past, and clients under those minimums are not required to meet this new minimum.

**ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Spectrum Financial Management follows an asset allocation strategy. Asset allocation involves dividing an investment portfolio among different asset classes based on an investor's financial requirements. Assigning an appropriate asset mix is a dynamic process and it plays a key role in determining your portfolio's overall risk and return. As such, your portfolio's asset mix should reflect your goals at any point in time.

Stocks and bonds are the two major categories used in portfolio diversification. The amount that an investor should have in stocks and bonds is based on two factors. First, the allocation is based on the expected return that an investor requires to meet their financial objective, and second, it is based on the amount of investment risk that a person can accept. A successful allocation is one that achieves an investor's financial goals without so much volatility that it causes the investor to make behavioral mistakes.

Asset allocation does not end with a stock and bond allocation. Portfolios are constructed using several different stock and bond sectors and styles. Once the target allocations are set for a portfolio, it is continuously monitored. A portfolio should not be invested in an asset allocation and then forgotten. Each portfolio must be rebalanced occasionally to keep the asset classes aligned with the long-term asset allocation strategy. Rebalancing reduces risk, invests cash effectively and keeps a portfolio on track. A disciplined rebalancing program also eliminates subjective and emotional decision making that can throw a portfolio far off from an investor's desired level of risk.

We evaluate your portfolio's asset allocation every time you add money or withdraw money from the portfolio, and systematically twice per year. We generally will rebalance a portfolio when an asset has moved 5% from its target allocation. For example if an asset has grown from a 10% target allocation to 15%, we would liquidate the excess 5% and invest the proceeds into an asset class or classes that have fallen below their target allocation.

We primarily invest in no-load mutual funds. No-load mutual funds are funds that are sold without a commission. Mutual funds pool the investment dollars of many investors. The mutual fund manager invests this pooled money in a group of assets, in accordance with a stated set of objectives. Investors receive shares of the mutual fund, which represent an ownership interest in the fund and, in effect, in each of its underlying securities. For most mutual funds, shareholders are free to sell their shares at any time, although the price of a share in a mutual fund will fluctuate daily, depending upon the performance of the securities held by the fund. Benefits of mutual funds include diversification, professional money management, liquidity, and convenience. Mutual funds do have operating expenses, which are collected from the fund assets. Operating expenses can vary widely and will affect your investment return. We pay close attention to operating expenses in our investment selection process.

While asset allocation and diversification can reduce the volatility of an investment portfolio they do not eliminate risk. All investments have risk. Risk varies among different investment types. Investments can be classified by their risk; some investments are high risk, some are low risk, and everywhere in between. Investors face a risk versus return trade-off. An investor's goals, objectives, and time frame need to be considered in determining an optimal risk-reward relationship. Common types of investments in decreasing order of risk and reward include: stock investments, corporate bonds, government bonds, and money market instruments. Mutual funds will invest in these common types of investments and carry risk similar to that of the following:

### Stock Investments

Investing in the stock market involves considerable risk. An investor has no assurance of making money. Stocks are therefore high-risk investments. In exchange for assuming a higher level of risk an investor has higher potential to make money. Risk can be defined as volatility. Stocks are volatile, prices increase or decrease in the market on a daily basis. Investors can mitigate the risk of stock investment through diversification. Diversification involves investing in multiple investments, reducing the risk of a single

investment's loss. Stocks are long-term investments; their volatility reduces the likelihood of gain in the short term.

#### Corporate Bonds

Corporate bonds have lower risk than stocks. They generally also have lower returns. The nature of risk in corporate bonds is different than stocks. Bonds are interest rate sensitive investments; bond values vary inversely with changes in interest rates. Bonds are less volatile than stocks. Bond risks include credit risk, interest rate risk, and re-investment risk. Credit risk is based on the ability of the bond issuer to meet their financial obligations. Interest rate risk is the chance of the bond losing value due to increases in interest rates. Re-investment risk is the risk that an investor cannot reinvest the interest they receive at the same rate that the bond pays.

#### Government Bonds

Government bonds are bonds issued by the United States government or by states or municipalities. Bonds issued by the U.S. government are considered to be very safe investments. The risk factors are the same for government and corporate bonds; however, credit risk is lower for government bonds than for corporate bonds. Government bonds generally pay lower rates of interest than corporate bonds. The likelihood of default is also lower due to lower credit risk.

#### Money Market Investments

Money market investments have very little volatility. The chance of losing money in a money market investment is quite low. The primary risk of money market investments is purchasing power risk. Money market investments pay low rates of interest. An investor's risk is that their purchasing power will be eroded by inflation. The real rate of return on money market investments, measured as realized return minus inflation, can be low or negative. In the long run, a money market investor does not gain appreciable spending power as the growth in their account is offset by inflation. Money market investments provide a relatively safe place for investors to park dollars for emergencies or opportunities.

### **ITEM 9 – DISCIPLINARY INFORMATION**

Neither Spectrum Financial Management nor any of its advisory personnel have any past or present disciplinary actions.

### **ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Spectrum Financial Management is an independent investment advisory firm and is not affiliated with any other firms.

Ms. Friedlander is a licensed life and disability insurance agent. She can sell insurance products and will receive commissions that are normal and customary compensation for such transactions. Clients are under no obligation to implement recommendations through Ms. Friedlander. When commission based insurance products are recommended, clients will be informed prior to execution that a commission will be received and that a possible conflict of interest exists. Insurance products offer different commission levels,

which could lead an advisor to recommend a higher commission product over a better suited but lower commission product. Spectrum Financial Management follows a Code of Ethics, which specifies that the interest of the client be always first and foremost. We select products that we believe are best for the client. The potential commission from the product is not part of our selection process.

#### **ITEM 11 – CODE OF ETHICS**

A) Spectrum Financial Management has adopted a Code of Ethics that all employees have agreed to follow. This Code is based on a few basic principles that should pervade all investment related activities of all employees, personal as well as professional: (1) the interests of the Adviser's clients/investors come before the Adviser's or any employee's interests; (2) each employee's professional activities and personal investment activities must be consistent with this Code and avoid any actual or potential conflict between the interests of clients/investors and those of the Adviser or the employee; and (3) those activities must be conducted in a way that avoids any abuse of an employee's position of trust with and responsibility to the Adviser and its clients/investors, including taking inappropriate advantage of that position. A copy of the Code of Ethics is available to both current and prospective clients upon request.

B) Spectrum Financial Management does not recommend to clients any securities in which they or their employees have a financial interest.

C) Employees of Spectrum Financial Management may invest in mutual funds that clients are also invested in. Any purchase or sale of individual stocks must be approved prior to the transaction. Employees are required to submit monthly account statements to Spectrum Financial Management for review. These statements are reviewed to confirm that there has been no inappropriate trading activity.

#### **ITEM 12 - BROKERAGE PRACTICES**

Spectrum Financial Management does not maintain custody of your assets, although we may be deemed to have custody of your assets if you give us authority to withdraw assets from your account (see Item 15 – Custody, below). Your assets must be maintained in an account at a “qualified custodian,” generally a broker- dealer or bank. We request that our clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, as the qualified custodian.

We are independently owned and operated and are not affiliated with Schwab. Schwab will hold your assets in a brokerage account and buy and sell securities when we instruct them to. While we request that you use Schwab as custodian/broker, you will decide whether to do so and will open your account with Schwab by entering into an account agreement directly with them. We do not open the account for you, although we may assist you in doing so. Charles Schwab is our preferred custodian; therefore, if you do not wish to place your assets with Schwab, then we cannot manage your account. However, even though your account is maintained at Schwab, we can still use other brokers to execute trades for your account as described below (see “Your Brokerage and Custody Costs”).



### **How We Select Brokers/Custodians**

We seek to use a custodian/broker who will hold your assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength, and stability
- Prior service to us and our other clients
- Availability of other products and services that benefit us, as discussed below (see “Products and Services Available to Us From Schwab”)

### **Your Brokerage and Custody Costs**

For our clients’ accounts that Schwab maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you transaction fees on mutual fund trades that it executes or that settle into your Schwab account. Schwab’s transaction fees applicable to our client accounts are discounted 20% because of the level of assets that our clients collectively maintain at Schwab. This benefits you because the overall fees you pay are lower than they would be otherwise.

For individual stock or bond purchases, Schwab will charge commissions. In addition, Schwab charges you a flat dollar amount as a “prime broker” or “trade away” fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account. We have determined that having Schwab execute most trades is consistent with our duty to seek “best execution” of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see “How We Select Brokers/Custodians”).

### **December 2010 Products and Services Available to Us From Schwab**

Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab’s business serving independent investment advisory firms like us. They provide our clients and us with access to its institutional brokerage— trading, custody, reporting, and related

services—many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts, while others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (we don't have to request them) and at no charge to us as long as our clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab. If our clients collectively have less than \$10 million in assets at Schwab, Schwab may charge us quarterly service fees of \$1,200. Following is a more detailed description of Schwab's support services:

**Services That Benefit You.** Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

**Services That May Not Directly Benefit You.** Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

**Services That Generally Benefit Only Us.** Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional business entertainment of our personnel.

### **Our Interest in Schwab's Services**

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services so long as our clients collectively keep a total of at least \$10 million of their assets in accounts at Schwab. Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. The \$10 million minimum may give us an incentive to request that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see "How We Select Brokers/Custodians") and not Schwab's services that benefit only us. We have nearly \$80 million in client assets under management, and we do not believe that requesting our clients to collectively maintain at least \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.

### **ITEM 13 – REVIEW OF ACCOUNTS**

Clients will receive written quarterly investment reports approximately three weeks after the end of each quarter. These reports provide a calculation of our investment management fee, the current value of the portfolio, a summary of portfolio performance for various time periods including both short- and long-term, comparative statistics of various market index returns, and a long-term comparison of portfolio value versus the net-investment. Additionally, we encourage clients to schedule a review meeting anytime their financial circumstances, goals or objectives change. At a minimum, the portfolios will receive three different types of reviews during the year including: a comprehensive annual review, an asset allocation review, and a year-end tax planning review.

Comprehensive Portfolio Review: This review is performed at least annually, more frequently at client's request or as needed due to changes in financial circumstances. The review includes a review of the portfolio's performance both long- and short-term, performance of the individual investment assets, the portfolio's asset allocation, the portfolio's tax situation, the portfolio's cash flow and a review of the client's goals and objectives.

Asset Allocation Review: The portfolio's asset allocation is reviewed semi-annually. The asset allocation is reviewed as part of the comprehensive portfolio and once again six-months later. Additionally, any time a client adds or withdraws money from the portfolio, we evaluate the portfolio's asset allocation.

Tax Review: In November of every year, each taxable investment account is reviewed for tax planning opportunities. We evaluate the realized gains and losses in the portfolio, project gains and losses through the end of the year and evaluate whether or not there are

any opportunities to reduce tax liability.

#### **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. These products and services, how they benefit us, and the related conflicts of interest are described above (see Item 12 – Brokerage Practices). The availability to us of Schwab’s products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

We do not compensate anyone for referrals. Occasionally we will give a nominal gift as a thank you for a referral and occasionally we offer a 10% discount on tax preparation services for tax client referrals.

#### **ITEM 15 – CUSTODY**

Schwab maintains custody of your assets. You will receive account statements directly from Schwab at least quarterly. They will be sent to the email or postal mailing address you provided to Schwab. You should carefully review those statements promptly when you receive them. We also urge you to compare Schwab’s account statements to the periodic portfolio reports you will receive from us.

Under government regulations, we may be deemed to have custody of your assets if you authorize us to instruct Schwab to deduct our advisory fees directly from your account. However, because this is the only reason we are deemed to have custody, we are not subject to an annual surprise examination.

#### **ITEM 16 – INVESTMENT DISCRETION**

Generally, to have Investment Discretion of your account means that we will decide what securities or other assets to purchase or sell on behalf of the account without discussing the trades with you ahead of time. While most of our client’s portfolios are managed with discretion, we do not exercise discretion with respect to the initial investments of the portfolio. The initial investments of your portfolio are planned and presented to you prior to any investments. In this planning process we set a target asset allocation for your investment portfolio and then manage your portfolio within this framework going forward.

Once the portfolio is invested according to the plan approved by you, we then exercise discretion in managing the portfolio on an ongoing basis. We use discretion to make fund improvement trades and asset allocation rebalancing trades. If we feel that a fund in a particular asset class is no longer meeting the objectives or performance requirements we have for it, we will make a change from that fund to a new fund in the same asset class. Additionally, when we re-balance your portfolio we will sell off a portion of the assets in a particular asset class in order to lock in gains and reallocate your funds to an asset class that has slipped below your target allocation. These changes are done without consultation with you before hand. We feel that this allows us to trade your account in the most timely and effective manner. If we feel that a particular fund could be

improved, we believe that it is in your best interest for us to liquidate that fund and replace it with what is deemed to be a better fund. Any trades exercised with discretion are always followed up with a letter of explanation within 24 hours of the trades.

We do not make trades that will change the asset allocation of your portfolio without first discussing the trade with you. Also, we do not introduce new assets classes to your portfolio without first discussing the reasoning for the introduction of a new asset class with you.

When we are authorized to deduct our fee from your portfolio and no cash is available, we will sell shares of a fund to generate cash. Because these trades are for a relatively nominal amount, we don't discuss these trades ahead of time. You will receive an invoice showing the calculation of our fee prior to us making any fee trades in your account.

#### **ITEM 17 – VOTING CLIENT SECURITIES**

Spectrum Financial Management does not vote client securities. It is our policy to receive information only copies of proxy materials in order to assist clients with the proxy vote, but we do not vote the proxies for clients.

#### **ITEM 18 – FINANCIAL INFORMATION**

Advisors who manage less than \$100 million in assets are not required to submit audited financial statements.