

ARTHUR D. CLARKE & Co.

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*Investment Counsel
with a long-term perspective*

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This Brochure provides information about the qualifications and business practices of Arthur D. Clarke & Co. If you have any questions about its contents, please contact Arthur Clarke at 617-424-6926 or arthur@adc-co.com.

ADC&Co is a registered investment adviser. Neither it nor its principal has been the subject of disciplinary action by any federal or state regulatory authority. This can be confirmed by contacting the Securities Division of the Commonwealth of Massachusetts at cis@sec.state.ma.us.

The United States Securities and Exchange Commission would like me to remind you that the information in this Brochure has not been approved or verified by it or by any state securities authority. Nor does registration of an Investment Adviser imply any level of skill or training. Rather, you should look to the oral and written communications, the paper trail, of an Adviser to inform you in making your decision to hire or retain an Adviser.

The format of this Brochure is dictated by the SEC. Additional information is also available on the SEC's website at www.adviserinfo.sec.gov.

Material Changes

There have been no material changes in the practice of ADC&Co. in recent years, including the last twelve months.

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Advisory Business

Arthur D. Clarke & Co. is a registered investment advisor offering investment services to a small group of investors with a long-term, owner-oriented approach to investing. ADC&Co's objective is to achieve a return superior to the market return. It makes no promises, however, and past performance does not predict the future.

ADC&Co uses a value approach that emphasizes protection of capital through the creation of value. Investments are made with a long-term horizon, primarily in common stocks of publicly traded companies. ADC&Co with due respect for Gertrude Stein believes that a good investment is a good investment is a good investment. Its aim is to construct client portfolios of good investments. Client portfolios will vary from one another, because of the availability of good investments at the time of available cash. Tailoring to client needs or perceptions of risk is accomplished through the holding of cash or cash equivalents. Margin might be used as a kind of negative cash, but if and only if such use is specifically authorized in writing by the client. ADC&Co does not use model portfolios.

ADC&Co was founded in 1985 by Arthur D. Clarke, who makes all investment decisions. He is also the sole owner. Prior to October 1989 it operated under the name of Marlborough Capital Management. The rights to that name were sold in August 1989.

As of December 31, 2012, ADC&Co had \$42.2 million in client assets under management, as defined by the SEC.

Fees and Compensation

You pay a set annual fee of one (1.0) percent. It is assessed quarterly at 0.25% and is based on the total portfolio value at the beginning of each quarter adjusted for additions and withdrawals. The fee is payable at the end of the quarter. No fees are assessed in advance.

In most instances, the fee is deducted from your account at Fidelity. Otherwise it is billed to you for payment. In either case, you will receive an invoice.

You also pay the broker a commission to execute a trade. ADC&Co receives no consideration from the broker in the form of "free" research or other so-called soft-dollar benefits. I currently recommend Fidelity Investments, whose Wealth Management division gives us efficient service at a modest cost to you.

Performance-Based Fees and Side-By-Side Management

ADC&Co. has no performance-based fees or side-by-side management arrangements, nor does it or Arthur D. Clarke receive any income other than what you pay.

Types of Clients

Clients are all individuals. These include individual, retirement and trust accounts. ADC&Co is currently not actively seeking new clients.

Methods of Analysis, Investment Strategies and Risk of Loss

There is more than one way to invest successfully. In choosing an investment manager, however, you are wise to pick one whose style you understand and whom you trust. Although ADC&Co's performance to date has been attractive, I believe the appeal of ADC&Co to prospective clients rests in its commonsense, businesslike approach. I try to make money by keeping things simple: this helps you and ADC&Co.

me understand what we are doing, and it helps build mutual understanding, which is crucial to our success.

ADC&Co uses a value approach that emphasizes protection of capital and the creation of value. Investments are made with a long-term horizon, primarily in common stocks of publicly traded companies. I look for ways to obtain superior long-term compounding.

This approach is profoundly influenced by Warren Buffett and his teacher and mentor Ben Graham, the author of *The Intelligent Investor*. Graham is considered the father of value investing, while Buffett is far and wide the best living practitioner. It is not their success that interests us but their thinking.

Value investing emphasizes the worth of a business, either in its assets or as a going concern. The value investor seeks to buy this worth, also called "intrinsic value", at a reasonable price. The objective is to do well by buying stocks at attractive prices relative to their intrinsic value rather than by trying to divine the direction of the market or to pick the next popular trend.

A share of stock represents a proportional interest in the ownership of a business. It has no life of its own. This view differs from the one common on Wall Street which follows market behavior or action of a stock, largely ignoring the underlying business. For the latter approach, "good value" and "undervalued" refer to the current market price relative to what one thinks others might be persuaded to pay one or two or three months hence.

I believe we should aim to be long-term owners. There is no reason not to be. If the job is done right the first time, it only has to be done once. Trading exacts considerable costs in commissions, spreads, and current taxes on realized gains. There is also the risk of making a mistake reinvesting the proceeds. No one ever went poor taking a profit, the saying goes. But what happens to that profit when it is reinvested is another matter! According to the Value Line Investment Survey, "an investor who attempts to exploit market swings by shifting in and out of equities must be correct more than 70% of the time in order to beat an investor who consistently stands pat."

This value approach is not unique, but it is not particularly popular, either. It does not rely on brilliance or cleverness (although it might benefit from both). Indeed, it might be viewed as a protection from brilliance or cleverness, for, as Ben Graham wrote, "These virtues, if channeled in the wrong directions, become indistinguishable from handicaps." It doesn't involve fancy concepts or complicated financial instruments. It is based on common sense, independent thinking, and a sense of value.

In sum, value investing involves an attitude and an intellectual, analytical ability. The attitude is the sense for value. The ability is the skill to identify it.

For ADC&Co a necessary element of value is management that works for the owners of the business. We wish to be associated with managers who think and act instinctively in ways that build long-term wealth. ADC&Co is not interested in empire builders or managers more concerned with their golf game than running a first-rate business. Larry Tisch put it well: "It's my obligation to run a good company and to run it intelligently. It's not my obligation to waste money." In most walks of life being able to count on someone is important. It is particularly important for investors of publicly traded securities: we are, after all, absentee owners.

The second element of value is the resources with which management works. These resources might be grossly undervalued assets or they might be operating businesses capable of producing large amounts of cash. I get really excited about a company whose managers can over time do wonders with this cash and get the power of compounding, something Einstein is reputed to have called one of the wonders of the world, working for us.

ADC&Co.

Unfortunately, such companies are rare and are seldom given away. Hence, the value investor must be patient. As my father would remind us growing up: "Keep your shirt on!" Then, as now, this is often easier said than done.

In this context I have a distinctly contrarian view about the payment of dividends, but in a company like Berkshire Hathaway it has solid pedigree. I am not persuaded by the argument for dividends that says, "A bird in hand is worth two in the bush." Both birds were originally in the investor's hand. If the investor had done his or her job, two birds in a bush (in an aviary and of opposite sex) are likely to accomplish far more than the mess left by the bird in one's hand. One has to have a certain amount of faith in the ability of the birds to do their job, or perhaps it is faith in one's ability to pick reproducing birds, or a good manager. A bird in hand will only provide today's meal.

ADC&Co accounts tend to have no more than a dozen positions at a time. Turnover is low. While some diversification is prudent I do not seek to diversify across many industries. Indeed, I avoid some industries entirely, either because a particular industry is an intrinsically lousy business or because of the specialized knowledge needed to understand the industry. Diversification for the sake of diversification can lead to average results at best. I try to focus on companies that are likely to produce good results, and largely ignore their industry representation. As Charlie Munger put it, "The whole secret of investment is to find places where it is safe and wise not to diversify."

In taxable accounts ADC&Co will consider using margin. It provides extra resources to take advantage of occasional opportunities. In using margin my attitude is "bankerly." I am inclined to invest on margin only when I am fairly confident of an adequate spread between the expected return and the cost of money. My idea of a safe margin investment is an investment returning a fairly predictable 10% bought with money costing 3 to 5%. I do not consider using margin in this manner to be speculation. I will, however, use it only if, and to the extent that, a client is comfortable using it, and approves its use in writing.

ADC&Co does not short stock or trade in options. I would consider the purchase of warrants, given the right opportunity. (I have not found any, yet.)

I believe the key to success is to focus on managers who work for the owners, on companies with superior earning power, on the retention of earnings for higher long-term compounding, and on the avoidance of popular trends. As Damon Runyon said, "It may be that the race is not always to the swift or the battle to the strong but that's the way to bet."

Disciplinary Information

Neither ADC&Co. nor Arthur D. Clarke has ever been the subject of a disciplinary action by any governing body, including the Securities and Exchange Commission.

Other Financial Industry Activities and Affiliations

ADC&Co. engages in no other financial industry activities and has no affiliations that might constitute a conflict of interest.

Code of Ethics

ADC&Co's code of ethics is simple: Treat clients as if they were your best friends.

I (which might include my wife) usually own the same securities you own. I believe in eating my own cooking with you. There exists, therefore, a potential conflict of interest. To protect against an actual conflict, trades for **your account will always be given preference.**

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Brokerage Practices

ADC&Co. has an arms-length relationship with brokers, which in recent years has been entirely with Fidelity Investment's Wealth Management division. Criteria in selecting a broker are breadth and efficiency of service and cost to you. ADC&Co. receives no consideration of any sort. It considers so-called soft-dollar arrangements, where an advisor gets a credit for a portion of commissions, repugnant.

Review of Accounts

All accounts are reviewed with each daily download of transaction activity by me.

Client Referrals and Other Compensation

ADC&Co. does not engage in such activities.

Custody

ADC&Co. does not hold custody of your account. Custody in recent years has been entirely at Fidelity Investments Wealth Management division. You will receive directly from Fidelity confirmation of trades and monthly statements. You should keep both with your tax records. Fidelity will also send you annually a Form 1099 for use in filing your income tax.

ADC&Co. supplements these with quarterly and annual reports, which provide analytical detail to help you assess your performance. I will try to be frank with you and will try to avoid merely overwhelming you with numbers. While our form of business is not a partnership, I will try to relate to you as one partner to another.

Investment Discretion

ADC&Co. only accepts discretionary accounts. They are managed separately, not comingled in any way. We operate with a clear division of labor: you select ADC&Co., and ADC&Co. invests. You retain full hire-and-fire authority. You may terminate ADC&Co's management role at will without penalty or prior notice. You will, of course, be billed the management fee to the date of termination.

In the process of setting up an account with a broker (Fidelity) you authorize ADC&Co to execute trades on your behalf. Brokers have standard forms for this. This is a limited power of attorney. You may revoke this limited power of trading authorization at your discretion. To protect both of us I do not accept full power of attorney. Thus I cannot withdraw funds from your account beyond the management fee quarterly without your signature.

ADC&Co may not transfer your account to another manager without your written approval.

Voting Client Securities

ADC&Co. does not vote for the client.

Financial Information

ADC&Co. has no financial exposure that could reasonably endanger its fiduciary obligations. Your fee is assessed in arrears. I believe I should earn the fee first.

Biographical

ADC&Co.

Arthur Clarke was born and raised in Northampton, Massachusetts, and has lived for extended periods in Tübingen, West Germany; Chicago; Washington, DC; and, since 1982, in Boston.

He holds master's degrees in philosophy and literature from the University of Tübingen and Northwestern University, and in business from The University of Chicago.

From 1972 until 1984 he worked in fund raising at The University of Chicago, The Urban Institute in Washington, DC, and the National Bureau of Economic Research in Cambridge. At all three institutions he had extensive contact with public companies, particularly with senior managers. While in Chicago he was Secretary of the Citizens Board, a group of Chicago leaders, a member of the Foreign Affairs Committee of the Chicago Council on Foreign Affairs, a member of the Junior Governing Board of the Chicago Symphony, and a member of the Arts, Quadrangle, and University clubs.

Current Memberships and Affiliations:

Boston Security Analysts Society

Boston Economic Club (Executive Committee 1994-98)

The Boston Athenaeum, Proprietor

Boston Committee on Foreign Relations: Vice chairman (Secretary 1989-95)

New Hampshire Furniture Masters Association, Advisory Council

Somerset Club

The Union Club of Boston (Governor 1998-2004)

His interests include the history of ideas, travel, cooking and growing orchids.

Privacy Policy

ADC&Co.'s Privacy Policy is simple: no client information will be released to unauthorized parties. Documents that aren't required to be retained are shredded before being discarded.