



**Part 2A of Form ADV: *Firm Brochure***

**Accredited Investors Inc.**

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01/01/2012

This brochure provides information about the qualifications and business practices of Accredited Investors Inc. If you have any questions about the contents of this brochure, please contact us at 952-841-2222 or [Ross@Accredited.com](mailto:Ross@Accredited.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 authority.

Additional information about Accredited Investors Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 105439.

## **Item 2   Material Changes**

Clients will receive a summary of any material changes to this and subsequent Brochures by April 30<sup>th</sup> of each year. Furthermore, we will provide you with interim summary disclosures promptly when certain information becomes materially inaccurate.

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## Item 4 Advisory Business

Accredited Investors Inc. is a SEC-registered investment adviser located in Edina, Minnesota. Accredited Investors Inc. began conducting business in 1986.

Listed below are the firm's principal owners (i.e., those individuals and/or entities controlling 10% or more of this company):

- Ross Levin, Founding Principal and President
- Willis T. Heupel, Founding and Managing Principal
- Kathleen M. Longo, Senior Principal

Accredited Investors Inc. offers the following advisory services to our clients:

### **WEALTH MANAGEMENT SERVICES**

We offer comprehensive, fee-only wealth management services for all areas of the client's financial life, including asset protection, investment planning, debt management, estate planning, retirement planning, and more. Our work is based on Ross Levin's book, *Implementing the Wealth Management Index*, published by Bloomberg Press. We have a strong emphasis on the link between money and values. Our process is client focused and collaborative, where the client takes an active role in every decision. Each client has a dedicated team of advisors who work with them to meet their individual wealth management needs.

In general, our wealth management services cover any or all of the following areas:

- **ASSET PROTECTION** covers wealth management strategies that intend to preserve an individual's wealth and protect it from potential risks. This consists primarily of various types of insurance: life insurance, long-term care insurance, property and casualty insurance, and medical insurance.
- **DISABILITY & INCOME MANAGEMENT** focuses on planning for income and taxes. This consists of protecting future income, analyzing current and future cash flow objectives and needs, and income tax planning.

- DEBT MANAGEMENT is focused on tracking and analysis of personal debt and net worth. Personal debt is typically divided into home loans, such as mortgages and home equity lines of credit, personal loans, and business debt.
- ESTATE PLANNING consists of strategic planning for asset transfer at death as well as the tracking of any documents that may be relevant to an individual's estate. It also involves charitable planning and gifting strategies. This includes beneficiary designations, legal documents such as trusts and wills, and the assignment of legal representatives.
- INVESTMENT PLANNING is concerned with the ownership and maintenance of any assets reflected on an individual's balance sheet as well as the appropriate investment management for the individual's portfolio of assets. This includes individual savings, managed investment accounts, qualified retirement plans, business ownership, home ownership, and non-traditional assets.

### **INVESTMENT ADVISORY SERVICES**

Our firm provides continuous advice to clients regarding the investment of client funds reflecting the individual needs of the client. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, we develop a client's personal investment policy and create and manage a portfolio based on that policy. During our data-gathering process, we determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. As appropriate, we also review and discuss a client's prior investment history, as well as family composition and background.

Our investment recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company and will generally include advice regarding the following securities: *Mutual Funds, Exchange Traded Funds, Closed End Funds, Individual Equity Securities, and Individual Fixed Income Securities.*

Because some types of investments involve certain additional degrees of risk, they will only be implemented/recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity, and suitability.

### **AMOUNT OF MANAGED ASSETS**

As of 12/31/2011, we were actively managing \$869,900,000 of clients' assets on a discretionary basis plus \$44,400,000 of clients' assets on a non-discretionary basis.

### **Item 5 Fees and Compensation**

Accredited Investors receives no commissions, referral fees, or expense reimbursements from any of our recommendations. Our fees are charged based on a percentage of assets typically beginning at a minimum of \$20,000, depending on the specific arrangement reached with the client. Our fee schedule is as follows: 1% on the first \$5 million, 0.75% on the next \$5 million, and 0.50% on the next \$5 million. The fee is negotiable for assets greater than \$15 million. We charge only against those assets we consider to be managed.

Fees are calculated annually as a percentage of the market value of assets under management and are based on the client's anniversary date. Fees are pro-rated, and paid in equal quarterly installments, in advance. Typically, Accredited Investors debits the wealth management fee directly from the client's account. Upon request, Accredited Investors will send an invoice to the client rather than directly debit the client's quarterly fee.

A client agreement may be cancelled at any time, by either party, for any reason upon receipt of 30 days written notice. As disclosed above, certain fees are paid in advance of services provided. Upon termination of any account, any prepaid, unearned fees will be promptly refunded. In calculating a client's reimbursement of fees, we will prorate the reimbursement according to the number of days remaining in the billing period.

All fees paid to Accredited Investors Inc. for services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee and other fund expenses. A client could invest in a mutual fund directly,

without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives.

Accordingly, the client should review both the fees charged by the funds and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

Clients are also responsible for the fees and expenses charged by custodians and imposed by broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer with which an independent investment manager effects transactions for the client's account(s). Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

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

Accredited Investors Inc. does not charge performance-based fees. Refer back to Item 5 for our fee and compensation practices.

## **Item 7 Types of Clients**

Accredited Investors Inc. provides advisory services to the following types of clients:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Pension and profit sharing plans (other than plan participants)
- Charitable organizations
- Corporations or other businesses not listed above

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

At Accredited Investors Inc., our investment decisions are guided by the theory of mean reversion. This investment theory states that while valuations and returns for various assets may vary substantially, over time valuations will return to their long-term average.

This leads to a clear-cut investment principle: buy low and sell high.

While in concept this philosophy is quite straightforward, its implementation requires a disciplined approach.

We tend to not chase investment returns, or move capital to “hot” sectors or assets. We focus on long-term results by allocating capital to areas of the market where we perceive the most attractive relative valuations and therefore the greatest potential returns.

The Investment Committee (“The IC”), which is composed of the president of the firm and investment managers of the firm, incorporates this approach into our portfolio construction process.

### **Portfolio Construction - Strategic**

The firm currently has five strategic asset allocations which vary based on risk and return. The mix is determined by the long term historical characteristics of each asset class and is therefore rarely altered. The strategic asset allocation is tailored for each client within appropriate models, based on factors such as risk tolerance, portfolio liquidity needs, and time horizon.

### **Portfolio Construction - Tactical**

Using the strategic asset allocation as a framework, the IC then looks to tactically deploy capital to asset classes with the most attractive investment prospects. These decisions are based on valuations relative to historic averages and to other asset classes, on our expectations for economic and market conditions, and on business and financial fundamentals.

### **Investment Selection**

Finally, the IC decides on the specific investment vehicle to represent the strategic and tactical asset allocations. The vast majority of the firm’s assets are held in the form of Exchange-Traded Funds (ETFs) and mutual funds, both actively and passively managed. Although the factors change based on market conditions and asset class, general considerations are expense ratios, fund size, firm size, risk and return metrics, performance history, compensation practices, and style biases. We only purchase mutual funds that we can buy



without sales charges and due to our significant asset base, almost always have access to institutional share classes which have trading costs, but lower internal fees.

Based on individual circumstances, the firm may sometimes utilize private investment, variable or immediate annuities, and certificates of deposit. These are not part of the firm's standard practices.

The IC believes that both fixed income and equity investing are subject to a number of risks, measurable and otherwise. Some, but not all, of the risks include fluctuations relating to general economic conditions, interest rates, inflation ratios, functioning of the credit markets including liquidity risk, earnings and earnings expectations, political risk including regulations and changes in laws, and currency risks.

The IC employs margin to bridge settlement differences between ETFs and mutual funds. The IC does not regularly employ short selling or option trading but may do so at the request or need of the client.

Investing in securities involves risk of loss that clients should be prepared to bear.

## **Item 9 Disciplinary Information**

Accredited Investors and its employees do not have legal or disciplinary events to disclose.

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

Our firm and our related persons are not engaged in other financial industry activities and have no other industry affiliations.

## **Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Accredited Investors Inc. has adopted a Code of Ethics (the Code) which sets forth the high ethical standards of conduct required of our employees, including compliance with applicable federal securities laws. The purpose of the Code is to preclude activities which may lead to or

give the appearance of conflicts of interest, insider trading, and other forms of prohibited or unethical business conduct.

The Code is designed to, among other things; assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and/or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. Further, any related person(s) may have an interest or transact in a security for their own accounts at or about the same time that Accredited Investors Inc. recommends or invests in that same security for a client. A conflict of interest may exist in such cases because employees could trade ahead of clients and potentially receive more favorable prices. To monitor this conflict, Accredited Investors Inc. requires employees to report personal investment holdings and securities transactions. Employees are also required to obtain prior approval of any acquisition of securities in a limited offering (e.g., private placement) or initial public offering. Accredited Investors Inc. reviews this information to ensure employees are acting in accordance with the Code.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by contacting Ross Levin at 952-841-2222 or by email sent to [Ross@accredited.com](mailto:Ross@accredited.com).

## **Item 12 Brokerage Practices**

Accredited Investors Inc. will endeavor to select those brokers or dealers which will provide the best services at the lowest commission rates possible. The reasonableness of commissions is based on the broker's stability, reputation, ability to provide professional services, competitive commission rates and prices, research, trading platform, and other services which will help Accredited Investors Inc. in providing investment management services to clients.

## **Research and Other Soft Dollar Benefits**

Accredited Investors currently does not maintain any arrangements with broker-dealers or third parties for “soft dollar benefits” in connection with client securities transactions.

## **Other Benefits**

Accredited Investors Inc. may receive benefits for maintaining a certain dollar threshold of client assets at a given custodian. Unlike soft dollar benefits, these benefits do not depend on the amount of brokerage transactions directed to the custodian. Accredited Investors Inc. may receive some or all of the benefits listed below:

- access to client account data (such as trade confirmations and account statements)
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- provide pricing and other market data
- facilitate payments of Accredited Investors Inc. fees
- assist with back-office functions, record keeping and client reporting
- research related products and tools
- technology, compliance, legal, and business consulting
- educational conferences and events
- publications and conferences on practice management and business succession
- access to employee benefits providers, human capital consultants, and insurance providers

Some of these products and services benefit Accredited Investors Inc. and do not directly benefit client accounts. This is a potential conflict of interest. Accredited Investors manages this potential conflict of interest by periodically comparing the fees charged and services offered by its custodians with those offered by other custodians.

## **Directed Brokerage**

Accredited Investors Inc. recommends the brokerage and custodial services of Charles Schwab & Co., Inc (Schwab) based on a number of factors including service, fees, financial strength, execution, and pricing. While we usually recommend clients establish accounts at Schwab, we also have custodial relationships with Fidelity Brokerage Services LLC (Fidelity) and Pershing LLC (Pershing). The client may direct Accredited Investors Inc. to use a particular broker-

dealer to execute some or all transactions for their accounts and Accredited Investors Inc. will facilitate on a best efforts basis. In such an event, the client will negotiate the terms and arrangements with that broker-dealer, and Accredited Investors will not seek better execution services or prices from other broker-dealers. Further, Accredited Investors will not be able to aggregate these clients' transactions with the transactions of Accredited Investors' other clients. As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

### **Block Trading**

Transactions for each client account generally will be effected independently, unless Accredited Investors Inc. decides to purchase or sell the same securities for several clients at approximately the same time. If Accredited Investors does not combine transactions when it has the opportunity to do so, clients could pay higher brokerage costs.

## **Item 13 Review of Accounts**

### **WEALTH MANAGEMENT SERVICES**

A review of the client's financial plan occurs both periodically and on an as needed basis. We typically meet with clients anywhere from one to four times per year for an existing client and up to five times per year for a new client. The frequency is determined after a conversation with the client and review of their situation.

After meeting frequency is determined, agendas are set to help define focus areas for the coming year. These agendas are flexible and change based on the needs of the client and what is most relevant to them at that time.

Reports and deliverables are presented in clients meetings to help solidify concepts and illustrate key findings. In addition, each client typically receives a post meeting letter summarizing client goals, next steps, and action items.

## **INVESTMENT ADVISORY SERVICES**

In general, the each client portfolio is reviewed once every two weeks. Trading is triggered based on deviations from the asset allocation model and is therefore dependent on market conditions. Overall, all clients must be reviewed once every 90 days. The review is performed by the Investment Manager, Wealth Manager or both.

The Investment Committee reviews performance of the asset class and funds on a weekly basis and can make a change at any time.

In addition to monthly reports provided directly from the custodian to the client, Accredited Investors provides reports to clients on a quarterly basis and during scheduled meetings. Based on client request, the reports are delivered electronically, written or both. Clients can also more frequently access electronic investment information through their custodian or through Accredited Investors' secure, online client vault.

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

It is Accredited Investors Inc.'s policy not to engage solicitors or to pay related or non-related persons for referring potential clients to our firm.

It is Accredited Investors Inc.'s policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

### **Item 15 Custody**

All client assets are held at independent, qualified custodians. For certain clients, Accredited Investors Inc. is deemed to have custody since it has the ability to withdraw funds and securities from the client's account and/or directly debit fees. Clients will receive monthly or quarterly account statements directly from the custodian where these assets are held. Accredited Investors urges clients to carefully review these statements and compare those statements with statements they receive from Accredited Investors.

## **Item 16 Investment Discretion**

Clients may hire us to provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client:

- Determine the security to buy or sell; and/or
- Determine the amount of the security to buy or sell

Clients give us discretionary authority when they sign a discretionary agreement with our firm, and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions.

## **Item 17 Voting Client Securities**

We vote proxies for all client accounts; however, clients always have the right to vote proxies themselves. They can exercise this right by instructing us in writing to not vote proxies in their account.

Accredited Investors will vote proxies in the best interests of its clients and in accordance with our established policies and procedures. Our firm will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by us that was material to making a decision how to vote proxies, and a copy of each written client request for information on how the adviser voted proxies. If our firm has a conflict of interest in voting a particular action, we will notify the client of the conflict and retain an independent third-party to cast a vote.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting Ross Levin by telephone (952-841-2222), email (Ross@accredited.com), or in writing (5200 W. 73rd Street, Edina, MN 55439). Clients may request, in writing, information on how proxies for his/her shares were voted. If any client requests a copy of our complete proxy policies and

procedures or how we voted proxies for his/her account(s), we will promptly provide such information to the client.

## **Item 18 Financial Information**

Accredited Investors Inc. has no additional financial circumstances to report.

Under no circumstances do we require or solicit payment of fees in excess of \$1,200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

Accredited Investors Inc. has never been the subject of a bankruptcy petition.



ACCREDITED INVESTORS INC.

*Real. Life. Planning.®*

## **Part 2A of Form ADV: Firm Brochure**

Summary of material changes since last annual update 01/01/11:

- Item 15 Custody: Our firm is deemed to have custody on certain accounts for which we have the ability to withdraw funds and securities from the client's account and /or directly debit fees.

If you would like an updated copy of our Firm Brochure please contact us.

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