

*Investment Advisory Brochure*



## Harbour Investments, Inc.

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March 27, 2012

This brochure provides information about the qualifications and business practices of Harbour Investments, Inc. ("Harbour"). If you have any questions about the contents of this brochure, please contact us at 608-662-6100 and/or email [info@harbourinv.com](mailto:info@harbourinv.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.

Harbour Investments, Inc. 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 an adviser provide you with information about which you determine to hire or retain an adviser.

Additional information about Harbour Investments, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

There are no material changes to our Investment Advisory Brochure dated March 30, 2011.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new brochure as necessary based on changes or new information, at any time, without charge.

Currently, our brochure may be requested by contacting us at 608-662-6100 and/or email [info@harbourinv.com](mailto:info@harbourinv.com). Our brochure is also available on our web site [www.harbourinv.com/client\\_resources.html](http://www.harbourinv.com/client_resources.html) also free of charge.

Additional information about Harbour Investments, Inc. is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Harbour who are registered, or are required to be registered, as investment adviser representatives of Harbour.

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## **Item 4 – Advisory Business**

Harbour Investments, Inc. ("Harbour") is a Wisconsin-based, securities broker/dealer and federally registered investment adviser incorporated in 1987. Nick W. Sondel owns 75% or more of the firm. The firm has its principal place of business in Madison, Wisconsin and its telephone number is (608) 662-6100. Harbour and its Investment Advisory Representatives ("IARs") provide a variety of investment advisory services to clients including:

Financial Planning and Consultation Services, Asset Management Services-Wrap Fee Programs and Third Party Manager Programs. A description of Harbour's advisory services follows:

### **Financial Planning and Consultation Services**

For clients having a need for financial advice involving analysis of a particular investment, overall holdings, or short or long-term financial situation, Harbour and IAR provide Financial Planning and Consultation Services to meet client's financial objectives and needs. Harbour's financial planning service usually includes, but are not limited to, an analysis of client's existing assets, investment objectives, insurance, investments, cash flows, risk management, retirement projections, estate or business plans, savings plans, or other special objectives. The scope of the financial plan may be as broad or detailed as the client wishes. Harbour's consultation services may include, but are not limited to, investment advice regarding retirement, education or estate planning, or the modification of an existing financial plan. For a client that may request advice on only a portion of their financial plan or regarding a limited project, Harbour and IAR will provide consultation services in the scope requested. Services provided by Harbour will generally consist of a review and analysis of all relevant data supplied by the client and a written report(s) may be generated based on the scope of the plan and client's objectives.

### **Asset Management Services – Wrap Fee Programs**

Asset Management Services typically begins with IAR assisting each new client in determining the client's investment and financial objectives. IAR and client will develop strategies based on all or some of the following items, but will not be limited to: current resources, level of income, net worth statement, risk tolerance, time horizon, investment objectives, present and deferred employee benefits, self-employed income and benefits, tax situation, insurance programs and estate planning considerations. Information is provided to Harbour and IAR by client and is believed to be reliable. The scope of the asset management service will be as broad or detailed as the client wishes which will influence the depth of investigation into the client's financial situation by Harbour and IAR. The IAR will be available to consult with, and respond to questions of the client as well as any advisers the client may designate concerning the recommendations and/or general

suggestions regarding client's financial situation. Harbour and IAR do not guarantee the results of any recommendation.

Asset Management Services include management of most forms of investments including, but are not limited to, common and preferred stocks, bonds, exchange-traded funds, municipal securities, load and no-load mutual funds and annuities. Although Harbour and IAR may recommend various short-term investment strategies, they will generally recommend strategies for the long-term. A client's securities portfolio will typically be custodied at one of Harbour's transaction clearing firms, Pershing, LLC, a Bank of New York Securities Co., Pershing Advisor Solutions, Charles Schwab Institutional, or Wedbush Morgan Securities. Monthly, quarterly or annual reports will be generated directly by the clearing firm holding the client's portfolio, and Harbour and IAR in general, will generate quarterly or annual investment reports in addition to the statements provided by the clearing firm. Harbour and IAR will not normally generate a written report when requested to review specific or generic products or to discuss planning or investment strategies in general and Harbour and IAR report generation beyond that provided by clearing firm will be agreed upon between client and IAR. A client's holdings that are being actively managed may be held at a custodian other than those listed above upon Harbour approval. Harbour will receive a portion of the wrap fee charged for our services. In having non-discretionary accounts, clients may choose not to invest in certain securities or types of securities.

### **Third Party Manager - Wrap Fee Programs**

Harbour and Investment Advisory Representative ("IAR") may determine that it is in the interest of the client to have a third party investment manager(s) not affiliated with Harbour, provide portfolio management services for the client. Harbour has therefore sought out and entered into various forms of agreements with third party manager platforms. Such programs include: Lockwood, Clark Lanzen Skalla Investment Firm, LLC, BTS Asset Management, SEI, Clark Capital Management and others. To facilitate account reporting when utilizing third party managers, account assets are usually custodied at a custodian designated by the third party manager. They will also generally require a client to have all securities transactions for the client's account processed by the custodian. Once a client has selected a manager program from those presented, Harbour and IAR supplies the program with information regarding the financial background and investment objectives of the client to the extent such information is provided by the client. The client then enters into an advisory agreement with the managers program whereby the manager(s) agrees to accept and manage the clients account on a discretionary basis in accordance with objectives of the client.

To the extent Harbour and IAR become aware of changes in a client's financial circumstances or objectives, this information is relayed to the client's manager. Updated financial information about a client is not collected by Harbour and IAR on a regular basis or given to a manager unless Harbour and IAR are made aware of changes by the client.

Clients may communicate such changes to the client's manager at any time. Harbour will receive a portion of the wrap fee charged for our services.

As of December 31, 2011, Harbour managed assets on a non-discretionary basis with an approximate value of \$438,000,000.00; \$289,000,000 in Asset Management Services-Wrap Fee Programs, and approximately \$149,00,000.00 under Third Party Manager – Wrap Fee Programs.

## **Item 5 – Fees and Compensation**

### **Financial Planning and Consultation Services**

The hourly fee for providing consultation services is negotiable but generally ranges from \$50 to \$250 per hour. Services can also be performed on a flat fee basis. Flat fees usually range between \$200 to \$1,500, but may be higher or lower depending on the scope of the plan. The rate and fee payment schedule is typically determined by the complexity of the project and the amount of time involved. The client payment for a plan or service is negotiable, but typically the fee is paid in its entirety up front or an estimate of the total fee is given to client by Harbour or IAR and a deposit of 50% of the estimated hourly or flat fee is due and payable upon execution of the agreement, with the balance of the fee due and payable upon receipt of the final written report or advisory service. It is possible for hourly or flat fees to be waived or refunded in instances where repositioning of the client's portfolio has generated commissions to Harbour and IAR. In the event of contract termination, which can occur by either the client or Harbour and IAR giving notice to the other, prepaid fees received but not earned are returned to the client. Clients have the option to purchase investment products that IAR's recommend through other brokers or agents that are not affiliated with Harbour.

### **Asset Management Services – Wrap Fee Programs**

Harbour and IAR offer its clients a range of payment options in order to compensate Harbour and its IARs. In most cases, where the client wishes an ongoing investment advisory relationship, compensation is calculated as a percentage of assets under management. These service fees typically range from 0.50% to 1.5% of assets under management. The IAR may negotiate the percentage of assets under management fee with the client outside the stated typical range, and is subject to the Harbour approval. In a situation where the IAR is using commissioned products to implement an investment strategy, fees on the assets under management may be waived for an IAR and client agreed upon time frame succeeding a sale which generates a commission. Refunds will not be allowed unless specifically approved by Harbour. In most cases, the assets under management are valued at the time the account is established or at the end of the first month or quarter after the account is established. Harbour and IAR can be compensated by

client for advisory services on a monthly, quarterly or any other Harbour, IAR and client agreed upon schedule. Fees are calculated on the basis of the market value of the assets under management multiplied by the stated assets under management fee agreed upon in the advisory agreement between Harbour and client. The fee may exclude transaction and custodian costs including brokerage ticket charges and account maintenance fees. The transaction costs may be per transaction or a percentage of assets. Such costs, if any, and the costs or charges not included in the fee will be separately charged to the account. Clients may authorize client's account custodian(s) to deduct, upon Harbour's instruction, fees when due from assets held in the account. Money market funds and other securities in the client's account in amounts sufficient to cover Harbour's fees may be liquidated to pay fees. It is also possible for Harbour and IAR to calculate and submit a fee invoice to client for account deduction which would then be liquidated by the custodian upon client permission. Harbour and IAR do not take custody of any clients' funds or securities. The investment advisory contract between Harbour and client can be terminated by either party upon receipt of written notification. The client has the right to rescind the contract within five business days of the date the contract was signed.

### **Third Party Manager Programs**

Manager fees usually range between 0.35% to 2.00% per annum which may be higher than those charged by other management services. Harbour and IAR will provide periodic assistance in evaluating manager(s) performance and, if necessary, recommend replacing a manager selected. Under the terms of Third Party Managers agreements with Harbour, in return for referring a Harbour client in need of management services to a third party manager, the manager program pays Harbour a fee typically calculated as a percentage of assets under management or as a percentage of the advisory fee received by the investment manager from the client. Such fees are generally paid for as long as the account remains under management. A conflict of interest exists when Harbour recommends managers, or a manager's platform from which it will receive compensation. In all cases, the total management fees must be disclosed to the client. The third party manager's platforms provide reports to clients at the frequency specified in the investment management agreements entered into with the clients. A client's IAR is available to discuss reports and to assist the client with other matters associated with the third party account. Third party managers platform fees vary based upon the value of assets under management. Annual asset-based fees usually range from .25% to 1.50% of the assets under management and cover Harbour and IAR fees only, not manager, transaction or custodial fees. Fees are generally payable quarterly in advance. Upon termination, all unearned prepaid fees are returned to the client. Clients usually authorize both the manager and Harbour to debit the client's account for the amount of fees due.

## **Considerations**

Harbour recognizes that since its IARs are also registered representatives with the broker/dealer, there is an inherent conflict of interest. Prior to transacting any securities or advisory business, the IAR must disclose the fee structure and the commission structure to the client so that he or she may better evaluate the compensation arrangement. If there are trail commissions generated by a recommended product, this must be disclosed to the client prior to implementation. In a situation where Harbour and IAR are using commissioned products to implement the investment strategy, fees can be waived or offset in lieu of commission which must be properly disclosed in writing. The IAR must also disclose whether the purchase of a particular investment product will add to the IAR's production volume for incentives such as gifts, trips, etc. An IAR who is managing an investment account positioned in mutual funds or variable contracts must disclose all management fees and expenses as described in prospectus. Fees may be paid six months in advance up to \$500, or may be billed in arrears on a monthly, quarterly or other client agreed upon periodic schedule. Harbour and its IARs cannot assign, sell or otherwise transfer a client's investment advisory contract unless they have written permission to do so from the client or the client's designated legal representative.

Harbour's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client unless otherwise noted. 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 Harbour's fee, and Harbour does not receive any portion of these associated fees and costs.

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

Harbour 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**

Harbour provides portfolio management services to individuals and high net worth individuals. Harbour generally has account minimums of \$25,000 for an individual and \$50,000 per household. An IAR may require account minimums in excess of these numbers. Third party manager programs will have different account minimums depending on the manager.



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

An IAR may use a risk tolerance questionnaire or investment policy statement to help with determining asset allocation and an investment strategy.

An IAR may recommend third party money managers that use a variety of methods for analyzing stocks, bonds, mutual funds and other investments that go into their portfolios.

Each third party manager utilizes a different type of analysis, in which the client and their investment adviser will determine which one, will best suit the client's situation.

Harbour has investment advisory representatives ("IARs") that manage the accounts themselves and provide Asset Management – Wrap Fee Program Services. The IARs generally may use fundamental and technical analysis; however each IAR may use their own analysis and investment strategy.

Fundamental analysis gives the tools to understand the underlying value of securities and to determine whether securities are under- or over-valued. Fundamental analysis can be applied to all types of securities, whether equities (valuation), bonds (credit risk), or commodities (demand/supply). It can also be applied to broader markets through economic analysis and investment strategy.

Technical analysis focuses on taking information from the market itself. Markets and securities develop trends, whether up, down or sideways, and technical analysis is proficient at measuring the characteristics of those trends. Momentum investing is a form of trend-following investing used by a variety of investors. Technical analysis is an important tool for momentum investors, especially in determining when trends change.

The types of analysis used by Harbour's IARs all have inherent risk associated with them because investing in securities involves risk of loss that clients should be prepared to bear. Other risks may include: market risk, default risk of individual bonds, inflation risk, option risk, high turnover risk and foreign investment risk.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Harbour or the integrity of Harbour's management. Harbour has no information applicable to this Item.

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

Harbour will operate a FINRA broker/dealer, Harbour Investments, Inc., which will sell investment products. Harbour's primary business will be to market investment products to its customers on a commission basis as a FINRA member firm. Approximately 20% of the firm's staff time, including that of its IARs, is spent providing investment advisory services. Harbour does not have any arrangements that are material to our advisory business or clients with any related person.

Harbour will operate a FINRA broker/dealer firm and in that capacity, may execute securities transactions for its investment adviser and IAR's.

Harbour may receive commissions and/or fees from other registered investment adviser firms and registered third party managers programs which would be fully disclosed in the appropriate selling agreements. A conflict of interest exists when Harbour recommends managers, or a manager's platform from which it will receive compensation. In all cases, the total management fees must be disclosed to the client.

## **Item 11 – Code of Ethics**

Harbour and investment advisory representatives ("IAR") have a duty to exercise its authority and responsibility for the benefit of the client, to place the interests of the client first, and to refrain from having outside interests that conflict with the interests of the client. Harbour and IAR must avoid circumstances that might adversely affect or appear to affect its duty of complete loyalty to its clients.

It is unlawful for any adviser in connection with the purchase or sale, directly or indirectly, of a security held or to be acquired by the adviser:

- To employ any device, scheme or ploy to defraud;
- To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements, not misleading;
- To engage in any act, practice, or course of business that operates or would operate as a fraud or deceit; or
- To engage in any manipulative practice.

Personal IAR transactions must be properly disclosed to client when the IAR and client hold common securities.

- If entering personal and client orders for the same security, the client's order must always be entered before the IAR's order.
- If the same security is held by the IAR and client, it must be disclosed to the client.
- If selling a personal position in a common security, it must be disclosed to all clients that hold the security, or have open orders to buy that security. The selling price also must be disclosed if setting limit orders.

- If buying a personal position in a common security, it must be disclosed to all clients that hold the security, or have open order to buy that security. The buying price also must be disclosed if setting limit orders.
- Personal activity in a common security ahead of a client must be documented and provide a written explanation for the sequence.

Advisers have a duty to disclose potential and actual conflicts of interest to their clients. IARs and solicitors have a duty to report potential and actual conflicts of interest to their advisory firms. Advisers should not attempt to limit their liability for willful misconduct or gross negligence through the use of disclaimers. \* A copy of the Code of Ethics is available upon request.\*

## **Item 12 – Brokerage Practices**

Harbour considers certain factors when selecting or recommending broker-dealers for client transactions. These factors include financial stability, fees, and customer service and transaction execution. Harbour has reviewed charges at other firms to determine if what Harbour is being charged at these broker-dealers is reasonable. Harbour does not receive research or other soft dollar benefits in connection with client securities transactions.

Generally, Harbour does not aggregate the purchase or sale of securities for various accounts. The cost to aggregate purchases or sale of securities may be higher than the cost of not aggregating due to extra ticket charge costs as well as market fluctuation.

Harbour's asset management – wrap program is a non-discretionary platform. Trading is directed by the client subject to client's chosen objective and strategies. Client determines the securities to be bought or sold and the amount of the trades.

Harbour's third party managers are discretionary platforms. Trading is directed by adviser, and in part by sub-adviser to whom discretionary authority is granted. Subject to client's chosen objective and strategies adviser will determine securities to be bought or sold, price, timing and broker/dealer that adviser and/or sub-adviser believes is capable of providing best price and execution of client orders.

Harbour and its advisers are aware of its responsibility to seek the "best execution" of client transactions. The determination of what may constitute best execution and price in execution of a securities transaction by a broker involves a number of considerations and is subjective. Factors affecting brokerage selection include the overall direct net economic result to the portfolios, the efficiency with which the transaction is effected, the ability to effect the transaction at all where a large block is involved, and the operational facilities of the broker-dealer, the value of ongoing relationship with such broker/dealers and the financial strength and stability of the broker.

### **Item 13 – Review of Accounts**

Accounts receiving asset management services in a wrap fee program are monitored by a client's IAR on a continuous basis and the frequency of client reviews are determined by the investment mix of the account and the desire of the client. Such reviews may also be triggered by economic news, news about a particular security, client requests, and change in client's personal or financial situation, securities research, deposits to or withdrawals from an account or other events.

Clients receiving asset management services receive account reports prepared by Pershing, LLC, a Bank of New York Securities Co., Pershing Advisor Solutions, Charles Schwab Institutional, or Wedbush Morgan Securities and other approved custodians on a monthly or quarterly basis. In addition, a report may be prepared by Harbour and IAR according to the frequency agreed upon between IAR and client. In most cases, these reports will be generated annually.

Third party managers programs typically provide account reports to clients on a quarterly basis.

Harbour conducts on an annual basis, a spot check of certain advisory accounts which the advisory fee is reviewed compared to the advisory client. The review is conducted by a registered principal of Harbour.

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

Not applicable

### **Item 15 – Custody**

Harbour does not have custody of client funds or securities. Clients should receive at least quarterly statements from the broker dealer or other qualified custodian that holds and maintains client's investment assets. Harbour urges you to carefully review such statements.

### **Item 16 – Investment Discretion**

Harbour does not accept discretionary authority to manage securities accounts on behalf of its clients.

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

As a matter of firm policy and practice, Harbour does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. Harbour may provide advice to clients regarding the clients' voting of proxies.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Harbour's financial condition. Harbour has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.