

## SIERRA INVESTMENT MANAGEMENT, INC

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### FORM ADV PART 2 BROCHURE

This brochure provides information about the qualifications and business practices of Sierra Investment Management, Inc. If you have any questions about the contents of this brochure, please contact us at 310/452-1887 or [www.sierrainvestment.com](http://www.sierrainvestment.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.

Sierra Investment Management, Inc. is a Registered Investment Advisor. Registration with the United States Securities and Exchange Commission does not imply a certain level of skill or training.



# TABLE OF CONTENTS

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ADVISORY BUSINESS .....	1 - 3
FEEES AND COMPENSATION .....	3-4
PERFORMANCE BASED FEES AND SIDE BY SIDE MANAGEMENT .....	4
TYPES OF CLIENTS .....	5
METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....	5-6
DISCIPLINARY INFORMATION .....	6
OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....	6
CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....	7
BROKERAGE PRACTICES .....	8
REVIEW OF ACCOUNTS .....	8
CLIENT REFERRALS AND OTHER COMPENSATION .....	9
CUSTODY .....	9
INVESTMENT DISCRETION .....	10
VOTING CLIENT SECURITIES .....	10
FINANCIAL INFORMATION .....	10



## ADVISORY BUSINESS

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Sierra Investment Management, Inc. (Sierra) is a federally regulated registered investment advisor. Sierra and its employees are subject to the rules of the Securities and Exchange Commission (SEC) under the Investment Advisors Act of 1940, and subject to the anti-fraud provisions of the state jurisdictions.

### ■ Advisory Service

Sierra manages client investment accounts for a quarterly management fee. The client grants us a limited power of attorney authorizing us to create and manage an investment account using only no-load, load-waived and institutional class shares of publicly-traded mutual funds, and to transact purchases and sales in that account on their behalf. (To a limited extent, we perform comparable monitoring and risk management services for mutual fund "clones" held through variable annuity products.) We purchase funds in a very wide variety of asset classes, including, but not limited to, domestic and foreign stock, bond and commodity funds, as well as currency and real estate funds.

Through the use of proprietary risk-management disciplines, Sierra tracks daily every fund held in client accounts. When a given holding declines enough to give a "sell" signal under our proprietary disciplines, we move all or a portion of that holding into a money market or similar "safe-haven" fund. When our system gives a "buy" signal, we move assets back into the same fund unless we have made other choices in the interim.

### ■ Principals

Kenneth L. Sleeper, MBA, PhD and David C. Wright, JD, are the beneficial owners (through family trusts), officers and directors of Sierra. Frank A. Barbera, Jr. CMT, joined Sierra full-time in January 2011 as Executive Vice-President; he is also co-portfolio manager with Dr. Sleeper and Mr. Wright.

### ■ Statement of Investment Goals

The investment goals for our managed accounts are:

1. To limit the downside risk of each overall, diversified account to 4%-5% even in a very adverse month or quarter in the investment markets; and
2. Generally to target an annual Total Return of 8%-10% after all fees, on average through a market cycle.

While there is no assurance that these goals can always be achieved, we believe that they are realistic based on our documented historical performance results.

## ■ Investment Programs

Our current minimum for a new client relationship is \$2,000,000 per household.

New clients may choose from one of the following investment programs.

### **1. Custom Diversified Program**

New clients meet with one of our Managing Directors for an in-depth discussion of their investment goals, risk tolerance and investment history. As a result, their diversified account may be adjusted to meet their specific needs and long-term objectives.

### **2. Strategic Income Program**

The Strategic Income Program is globally diversified among 8-20 mutual funds but with an emphasis on total return and current income. It will include various types of bond funds and other income-oriented asset classes selected (and periodically upgraded) by the Managing Directors. The overall asset allocation of the program as well as the specific fund holdings may change at any time.

### **3. High Yield Corporate Bond Program**

The High Yield Corporate Bond Program generally holds 3-15 high yield corporate bond funds and/or money market or similar "safe-haven" funds selected (and periodically upgraded) by the Managing Directors.

### **4. Balanced Program – closed to new investors**

Current clients may participate in the Balanced Program which is globally diversified among 8-20 mutual funds selected (and periodically upgraded) by the Managing Directors. The overall asset allocation of the program as well as the specific fund holdings may change at any time.

A percentage of most Custom Diversified, Strategic Income and Balanced Program accounts is invested in the Sierra Core Retirement Fund (Core Fund) and/or the Sierra Strategic Income Fund, which are managed by Wright Fund Management, LLC (WFM), an affiliate of Sierra. Each Fund is registered as a series trust of Northern Lights Fund Trust, an investment company registered under the Investment Company Act of 1940. Mr. Wright is the Managing Member and Dr. Sleeper and Mr. Barbera participate in most investment management decisions. Mr. Wright and Dr. Sleeper each own a 50% beneficial interest (through family trusts) in WFM. A client may choose to "opt out" of holding a position in either Fund.

To the extent that a Sierra account holds a position in the Sierra Mutual Funds, Sierra's quarterly investment management fee will be reduced by an amount equal to the expenses within the Mutual Funds for that fraction of the Sierra account.

## **5. Tax-Deferred Investment Program**

The Tax-Deferred Investment Program is composed of 6-10 mutual fund "clones" which are investment options available through the Prudential Variable Annuity. The investments are selected (and periodically upgraded) by the Managing Directors. This program is available for accounts with a minimum of \$100,000, within our overall minimum for a new client relationship.

## **6. Private Placement Variable Annuity**

Philadelphia Financial has selected Sierra Investment Management, Inc. as an approved advisor for their Private Placement Variable Annuity (PPVA). The PPVA is for accredited investors or qualified purchasers with an account size minimum of \$2,000,000 within that account. Sierra's Managing Directors are responsible for portfolio construction using only no-load, load-waived or institutional class, publicly traded mutual funds and for the application of Sierra's risk-limiting strategies. We are also responsible for following specific guidelines as set forth by Philadelphia Financial with respect to diversification and client communications.

## **■ Assets Under Management**

As of December 31, 2011, the assets under our management on a discretionary basis were \$644.9 million; the total, combined with our affiliates, was over \$1.3 billion.

# **FEES AND COMPENSATION**

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## **■ Standard Fee Schedule**

Our fee schedule is based on the total household account value and is non-negotiable. The investment management fee covers all account custodial and transaction expenses. Fees are debited quarterly from the account(s) specified by the client. Sierra receives no other compensation, commissions or service fees. The investment management fee is calculated as follows:

For the first \$500,000: 0.45% of the account value initially and at the start of each calendar quarter thereafter.

From \$500,001 to \$2,000,000: 0.30% of the account value initially and at the start of each calendar quarter thereafter.

Client relationships of more than \$2,000,000: 0.25% of the account value initially and at the start of each quarter thereafter.

Accounts that hold the Sierra Core Retirement Fund and/or the Sierra Strategic Income Fund will have their quarterly investment management fee reduced by an amount equal to the expenses within those Sierra Funds for that fraction of their Sierra managed account.

## ■ Incentive Fee Schedule

For accounts over \$1,000,000, at our option, we may offer an incentive fee schedule (which is also optional to that client) in compliance with applicable Federal (Section 205-3 of the Investment Advisors Act of 1940) and state regulations.

We earn no fee unless, on a cumulative basis for at least the prior 12 months, the Managed Return exceeds the Benchmark Return; our fee is then 25% of any cumulative excess over the Benchmark Return. "Benchmark Return" is the 91-day Treasury bill rate plus 1% annualized.

## ■ Additional Expenses/Fees

On occasion, the Managing Directors may purchase a mutual fund for client accounts that has a short-term redemption fee. If we or the client sells that fund during the specified redemption period, the sale will result in a fee that is debited directly from the client's account.

## ■ Termination

A client may terminate our investment advisory services at any time upon written notice (or telephone or verbal notice, in our sole discretion) and we will provide a pro-rata refund of that quarter's fee, less any actual costs we incur upon termination (typically about \$400). The account custodian, TD Ameritrade Clearing, Inc. (TDA), may charge fees for accounts that are transferred "in-kind" to another custodian.

# PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

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As shown above in Fees and Compensation, Sierra offers to certain qualified clients an Incentive fee schedule in compliance with applicable Federal (Section 205-3 of the Investment Advisors Act of 1940) and state regulations as an alternative to our Standard fee schedule.

Hypothetically, there is potential for a conflict of interest when a portfolio manager earns an incentive fee; the manager may be inclined to select higher risk investments in the hope of earning greater returns and thus earning higher income. At Sierra, we make no distinction among client accounts based on their fee schedule. All Sierra client accounts in the same program are managed in exactly the same way.



## TYPES OF CLIENTS

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We provide investment management services to retirees and other conservative investors. Accounts are typically registered as individual or joint, as IRA's, as retirement plans such as profit-sharing and defined benefit pension plans, as charitable foundations, as non-profit and for-profit corporations and as estate trusts.

Our current minimum for a new client relationship is \$2,000,000 per household. Adult children of existing clients may currently open an account with a minimum of \$500,000 per household.

## METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

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### ■ Methods of Analysis

Sierra uses proprietary, analytic approaches that include analysis of economic, fundamental, charting, cyclical and other technical data. We use websites, newsletters, financial newspapers, computer databases and government publications among other sources, to obtain financial information in order to analyze a wide variety of asset classes, mutual funds and ETFs.

We use several software programs to track and rank asset classes and funds with a view to creating portfolios that are likely to be productive, yet have overall low volatility due to moderate internal correlations. We also consider fundamentals in order to invest in asset classes that appear to have upside potential that does not appear to already be fully exploited.

### ■ Investment Strategy

Our investment strategy employs a multi-asset diversification strategy in order to limit downside risk as well as to seek opportunities to enhance absolute return. The portfolios are constructed by the Managing Directors who create an asset allocation responsive to current market conditions, select no-load, load-waived and institutional mutual funds to populate each asset class allocation and then monitor each fund daily.

We are active managers; we do not employ a passive, "buy and hold" strategy. When our risk-management discipline gives a "sell" signal, we will move all or part of the client's assets temporarily into a money-market or similar "safe-haven" fund. When our discipline gives a "buy" signal, we move assets back into the same fund unless, in the interim, the Managing Directors have identified a more attractive fund.

This strategy is applied to all accounts in all investment programs. Our strategy is not designed to buy at the bottom or to sell at the top of the market. Rather, we endeavor to participate in a substantial part of any sustained up-trend as well step aside during most of a sustained downtrend.

Since the investment markets rise and fall in irregular patterns, most holding periods are less than one year, and on some occasions may turn out to be as brief as 20 days or less. Our management approach typically results in being in and out of a particular fund twice each year, on average. As a result, taxable accounts may incur significant short-term capital gains and losses.

#### ■ Risk of Loss

Performance of individual client accounts during future periods will definitely vary. Some months and some quarters will result in negative performance; indeed, some future years may have negative performance. Using our proprietary risk-limiting disciplines, our private managed accounts have weathered the significant market declines of the unusually challenging last decade very well. However, past performance is no guarantee of future results.

## DISCIPLINARY INFORMATION

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Since inception, Sierra Investment Management, Inc. and its affiliates have had no legal or disciplinary events to report that are material to a client or prospect's evaluation of our firm's advisory business or our management integrity.

## OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

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Sierra has two affiliates that are also Registered Investment Advisors: Ocean Park Asset Management, Inc. (Ocean Park) and Wright Fund Management, LLC (WFM).

For a quarterly management fee, Ocean Park manages investment accounts for clients of unaffiliated Financial Advisors and shares the fees with those advisors or their firms.

WFM manages the Sierra Core Retirement Fund (Core Fund) and the Sierra Strategic Income Fund. Each Fund is registered as a series trust of Northern Lights Fund Trust, an investment company registered under the Investment Company Act of 1940. Mr. Wright, Dr. Sleeper and Mr. Barbera participate in most investment management decisions. Mr. Wright and Dr. Sleeper each own a 50% beneficial interest (through family trusts) in WFM.

A percentage of most Sierra (and some Ocean Park) client accounts is invested in the Sierra Funds. To the extent that these client accounts hold positions in the Sierra Funds, the Sierra and Ocean Park quarterly investment management fee is reduced by an amount equal to the expenses within those funds for that fraction of the Sierra or Ocean Park account.

Sierra receives administrative fees and reimbursement of certain business expenses from the two affiliates.

# CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

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## ■ Code of Ethics

Our Code of Ethics has been adopted pursuant to the requirements of rule 204A-1 under the Investment Advisors Act of 1940. A complete copy of our Code of Ethics is available upon request to any client or prospective client.

Our philosophy states that the client's interest is always foremost; we will always strive to do what is right for the client.

## ■ Participation in Client Transactions

Sierra and its personnel, may, on occasion, buy and sell for their own accounts some of the same mutual funds utilized in Sierra managed accounts, and mutual funds or ETF's used in the Core Fund or the Strategic Income Fund. There is no possible conflict with client transactions as pertains to mutual funds since they are priced daily after the markets close. As to ETF transactions, trading shortly ahead of clients (front-running) is prohibited. Any such person shall be "last in" and "last out" for the trading day when their trading occurs in close proximity to client trades. In addition, compliance policies are in effect so that no such transactions will affect prices to the managed accounts or to either Fund.

Moreover, although the SEC will not permit either Sierra Mutual Fund to waive its internal expenses for Sierra clients whose managed accounts hold Fund shares, those clients will have their Sierra quarterly investment management fees reduced by an amount equal to the expenses within both Funds of that fraction of their Sierra accounts.

All access persons (David C. Wright, Kenneth L. Sleeper, Frank A. Barbera Jr., P. Joy Bunzel, Deann Kato and Marshall Quan) are required to disclose all relevant personal securities holdings upon commencement of employment and annually thereafter. In addition, quarterly reports of personal securities transactions must be submitted whether or not any transactions have occurred. These reports are reviewed to identify potential conflicts of interest; if a conflict is identified, steps will be taken to address such a conflict.

We strive not to violate our fiduciary responsibility to our clients in any way.

## BROKERAGE PRACTICES

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Neither Sierra nor our affiliates select or recommend broker-dealers for commission-based client transactions.

Neither Sierra nor our affiliates receive research or other products or services in connection with client securities transactions ("soft dollar" benefits).

Neither Sierra nor our affiliates have any economic relationship with a broker-dealer that creates any type of material conflict of interest.

## REVIEW OF ACCOUNTS

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Each client account is reviewed at least once a quarter by Mr. Wright, Dr. Sleeper, Mr. Barbera or a supervised person including Deann Kato, P. Joy Bunzel and Marshall Quan, and upon request from the client.

Each month, Sierra mails a current position report to each Sierra client. This report identifies all current holdings in the account, the number of units, the price per share and the total value for each position. Each quarter Sierra also mails a statement showing the calculation of the client's investment management fee.

TD Ameritrade Clearing, Inc. (TDA), the independent custodian of most Sierra accounts, provides written confirmation to all clients of each transaction in their account, usually within a week. TDA also provides a monthly statement to each client showing all positions and all transactions that have occurred during that month.

Each client can opt to receive trade confirmations and/or monthly account statements by email rather than U.S. postal delivery. Such transactions include confirmation of an account opening, each transaction that occurs in the account, and each addition to or withdrawal from the account by the client. In addition, each client can, if they so choose, view their TDA account(s) 24/7 on the Internet. Clients with Sierra accounts held at Charles Schwab & Co., Inc., also receive similar reports and have 24/7 internet access for viewing their account(s).

Variable annuity companies provide similar monthly or quarterly statements detailing activity within the account for that time period.

During client review meetings, or upon verbal or written request, Sierra provides performance reports for the client's account(s).

For taxable accounts, Sierra provides a report annually (generally by mid-February) of the capital gains/capital losses realized during the prior calendar year.

## CLIENT REFERRALS AND OTHER COMPENSATION

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Sierra has several soliciting agreements with broker-dealers, financial planners, investment advisory firms and others, under terms that are fairly standard for such arrangements and in compliance with SEC Rule 206(4)-3, to provide investment management services for clients referred by such firms or individuals. We charge our standard fee schedule (see Fees and Compensation) with a share (ranging from 10% to 50%) of each collected fee going to the referring person or firm.

The referred client signs the "Financial Advisor Relationships: Disclosure of Compensation" form which states that the client is aware that there is an independent contractor relationship between Sierra and the referring firm or individual, that the referrer receives a specified percentage of the quarterly investment management fee paid to Sierra, and that no client is charged any differential for such arrangement. On occasion, an officer, Director or employee of Sierra may refer a client to the firm and may be compensated for this referral.

Sierra receives no economic benefit from any firm or individual (other than our clients) for providing investment management services.

## CUSTODY

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Sierra Investment Management, Inc. (Sierra) never takes physical custody or direct control of client securities or mutual funds, which are always in the custody of TD Ameritrade Clearing, Inc (TDA), or in the case of some smaller accounts, Charles Schwab & Co., Inc., and in the case of variable annuity accounts, the relevant insurance company.

TDA sends monthly account statements directly to clients detailing all transactions within the account for that month. Monthly, Sierra sends a Current Position Report to each client that lists the account holdings, number of shares, price per share and asset values. We encourage our clients to compare the account values between their TDA and Sierra monthly statements.

## INVESTMENT DISCRETION

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Our clients grant us a Limited Power of Attorney in order to execute buy and sell transactions within their accounts and to debit our quarterly investment management fees. The account custodian, usually TD Ameritrade Clearing, Inc., oversees the billing and debiting of our fees from client accounts.

A percentage of most client accounts is invested in the Sierra Core Retirement Fund and the Sierra Strategic Income Fund. The client can choose to opt out of either Sierra fund, or any other specific fund or asset class with reason; however, this option is rarely exercised. Accounts that hold the Sierra Mutual Funds will have their quarterly investment management fee reduced by an amount equal to the expenses within those Funds for that fraction of their Sierra managed account.

## VOTING CLIENT SECURITIES

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Sierra does not vote proxies for any client holdings. Clients will receive proxies or other solicitations from the account custodian or the mutual fund company. We do not provide information or support for or against any solicitation.

## FINANCIAL INFORMATION

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Sierra does not require or accept prepayment of more than \$1,200 in fees per client, six months or more in advance.