

**M. Kraus & Company**  
**Form ADV Part 2A**  
**Investment Adviser Brochure**

**March 2012**

This brochure provides information about the qualifications and business practices of M. Kraus & Company. If you have any questions about the contents of this brochure, please contact Aileen J. (Missy) Kraus, President and Chief Compliance Officer, at (802) 985-2620 and/or [missy@mkrausco.com](mailto:missy@mkrausco.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 M. Kraus & Company is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

4076 Shelburne Road, Building A Suite 7-C  
Shelburne, Vermont 05482  
(802) 985-2620  
[missy@mkrausco.com](mailto:missy@mkrausco.com)

## **Item 2: Summary of Material Changes**

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### **Annual Update**

This Item of the brochure is updated if material changes have occurred during the course of M. Kraus & Company's fiscal year; or with M. Kraus & Company's Annual Updating Amendment (ADV).

### **Material Changes since the Last Update**

Since the last ADV filing, there are no material changes to report.

### **Full Brochure Available**

We will 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 Aileen J. (Missy) Kraus, President at (802) 985-2620 or [missy@mkrausco.com](mailto:missy@mkrausco.com).

Additional information about M. Kraus & Company 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 M. Kraus & Company who are registered, or are required to be registered, as investment adviser representatives of M. Kraus & Company.

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## **Item 4: Advisory Business**

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### **Firm Description**

M. Kraus & Company is an investment advisory firm, managing investment portfolios for individuals, trusts, non-profit organizations, and retirement plans.

M. Kraus & Company was founded in 1996.

### **Principal Owners**

M. Kraus & Company is owned by Aileen J. (Missy) Kraus.

### **Investment Advisory Services**

M. Kraus & Company provides discretionary investment management for individuals, trusts, retirement plans and charitable institutions based on the specific needs of the client. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, M. Kraus & Company develops each client's investment policy and creates and manages a portfolio based on that policy. Account supervision is guided by one of four broadly-stated client objectives (i.e., Capital Appreciation, Balanced, Income or Other) which will be reflected in each portfolio's asset allocation. Additionally, clients have the opportunity to amend these objectives to suit their specific needs as well as to reflect any restrictions/social preferences that might influence the investment process.

M. Kraus & Company creates customized portfolios consisting primarily of individual equities, preferred stocks, and fixed income securities. On occasion, mutual funds are used to access particular sectors of the marketplace.

As requested from time-to-time and as part of our investment management process, M. Kraus & Company provides limited, personalized financial planning services to clients. Advice is provided through consultation with the client and may include: identification of financial problems, cash flow/budget needs, and evaluation of the adequacy of retirement income. We do not charge clients an additional fee for this consultation, but rather view it as an important part of the portfolio management process.

M. Kraus & Company is strictly a fee-only investment management firm. The firm does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. The firm is not affiliated with entities that sell financial products or securities. No commissions in any form are accepted. No finder's fees are accepted.

M. Kraus & Company does not act as a custodian of client assets. Clients always retain individual ownership and control of all securities in their accounts with an independent third party custodian. M. Kraus & Company places trades for clients under a limited power of attorney. Securities are purchased and sold through a variety of different brokerage firms. These brokerage firms charge a fee for stock and bond trades. M. Kraus & Company does not receive any compensation, in any form, from fund companies.

Other professionals (e.g., lawyers, accountants, insurance agents, etc.) are engaged directly by the client on an as-needed basis. Conflicts of interest will be disclosed to the client in the unlikely event they should occur.

The initial meeting, which may be by telephone, is free of charge and is considered an exploratory interview to determine the extent to which investment management may be beneficial to the client.

### **Tailored Relationships**

A written Investment Policy Statement is created for each portfolio that reflects the clients' stated goals and objective. Clients may impose restrictions on investing in certain securities or types of securities.

The goals and objectives for each client are documented in our client relationship management system.

Agreements may not be assigned without client consent.

### **Wrap Fee Program**

M. Kraus & Company does not participate in a wrap fee program.

### **Assets Under Management**

As of December 31, 2011, M. Kraus & Company managed approximately \$162,330,299; \$142,318,999 in discretionary assets and \$20,011,300 in non-discretionary assets.

## Item 5: Fees and Compensation

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### Compensation – Investment Advisory Services

M. Kraus & Company bases its fees on a percentage of the market value of assets under management at the beginning of each calendar quarter. Investment management fees are billed quarterly in advance.

#### Annual Fee Schedule:

1% of the first \$1,000,000

0.75% of the next \$1,000,000

0.50% of asset over \$2,000,000

Non-profit organizations receive a 10% discount to the Annual Fee Schedule.

Cash balances held as money market funds are included in the value of the account for fee purposes. Various fees levied on these funds by their managers, such as 12b-1 or operating expenses, are separate from M. Kraus & Company fees.

In certain circumstances, fees, account minimums and payment terms are negotiable depending on a client's unique situation such as the size of the aggregate related party portfolio, family holdings, low cost basis securities, fixed income holdings, or certain passively advised investments and pre-existing relationships with clients. Certain clients may pay more or less than others depending on the amount of assets, type of portfolio, or the time involved, the degree of responsibility assumed, complexity of the engagement, special skills needed to solve problems, the application of experience and knowledge of the client's situation. Existing clients may have been grandfathered in from a lower fee schedule.

Clients should note that similar advisory services may (or may not) be available from other sources for similar or lower fees.

### Calculation and Payment

The specific manner in which fees are charged by M. Kraus & Company is established in the client's written agreement with M. Kraus & Company.

M. Kraus & Company bills fees on a quarterly basis, in advance of each calendar quarter.

Fees are payable in one of two ways:

1. Directly by the client, or
2. Authorization in writing is filed with the custodian to debit the investment management fee directly from the client's account. M. Kraus & Company sends copies of the bill to the client, itemizing the market value and the formula used to

calculate the fee. An electronic file is submitted to the custodian with the client's account number and the amount of the fee.

Option Two, the direct debiting of fees from accounts, is the most typical means of payment.

Accounts initiated during a calendar quarter will be charged a prorated fee for that stub period.

### **Termination of an Account**

Clients may terminate the Investment Management Agreement without penalty or fee within five business days after entering into the agreement if Form ADV 2 was delivered within 48 hours before contract execution. Thereafter, either the client or the investment manager may terminate the Agreement by written notice to the other party. At termination, fees will be calculated on a pro rata basis for the portion of the quarter completed from the date that the written notice is received and returned to the client. The Agreement will terminate automatically if it is assigned by the Advisor without the consent of the Client.

### **Other Fees**

In addition to M. Kraus & Company's investment advisory fees, 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), wire transfer and electronic fund fees, reorganization fees, and other fees and taxes (withholding and foreign) on brokerage accounts and securities transactions.

Mutual funds and exchange traded funds may also charge fees, which include but are not limited to internal management fees and sales fees, which are disclosed in a fund's prospectus.

Such charges, fees and commissions are exclusive of and in addition to M. Kraus & Company's fee. M. Kraus & Company shall not receive any portion of these commissions, fees, and costs.

Custodians may charge transaction fees on purchases or sales of certain mutual funds and exchange-traded funds. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security.

Item 12, Brokerage Practices further describes the factors that M. Kraus & Company considers in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (e.g., commissions).



**Compensation for Sale of Securities or Products**

Neither M. Kraus & Company nor any of its supervised persons (employees) accept compensation for the sale of securities or other investment products.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

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M. Kraus & Company does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk or be more speculative than those which would be recommended to the client under a different fee arrangement.

## Item 7: Types of Clients

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### **Types of Clients**

M. Kraus & Company provides investment advice to individuals, trusts, non-profit organizations and retirement plans.

### **Account Minimums**

M. Kraus & Company requires a minimum account of \$500,000 for Investment Management clients. This may be negotiable under certain circumstances. For example, M. Kraus & Company may group certain related client accounts for the purposes of achieving the minimum account size.

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

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### Methods of Analysis

M. Kraus & Company primarily uses fundamental analysis in the evaluation of securities. The objective is to invest in securities for the long term (securities held at least a year). From time to time, there may be securities that are held for less than a year due to unanticipated changes in a company's long term fundamentals.

**Fundamental Analysis:** On the equity side, M. Kraus & Company attempts to find attractively valued companies based on a variety of different financial benchmarks such as return on capital, free cash flow, dividend policy and price/earnings ratios. Included in this analysis are the company's industry position, management team and general economic conditions. On the fixed income side, security selection is based on the quality of the underlying company, laddering to mitigate interest rate risk, and credit spread analysis.

The firm's fundamental analysis does not attempt to anticipate or time market movements. This presents a potential risk, as the short term price movements of a security can be affected by overall market conditions regardless of the economic and financial factors considered in evaluating a company.

### Investment Strategies

M. Kraus & Company's investment style is best described as diversified among industry sectors, long term and value oriented. Typically, this results in low turnover.

Portfolios are concentrated among roughly 30 - 35 individual common stocks and a variety of different fixed income securities including corporate bonds, preferred stocks, municipal bonds, government bonds, CD's and other money market equivalents.

Neither short sales nor margin transactions are a part of our investment strategy. From time-to-time, an account may carry a margin balance; this results exclusively from a client's immediate need to withdraw cash in an amount that is not readily available in the portfolio. Every effort is made to cover this margin balance as soon as is practicable.

Generally, the approach to selecting investable securities is consistent across all clients. There may be some small variation in securities held in each portfolio based on M. Kraus & Company's evaluation of the associated risk. The specific asset allocation for each portfolio as well as the weightings in each individual security may vary based upon the objectives stated by the client during consultations. The client may change these objectives at any time. Each client executes an Investment Policy Statement that documents their objectives and their desired investment strategy.

### Risk of Loss

All investment programs have certain risks that clients should be willing to bear. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar next year will not buy as much as a dollar today, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk to profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk to profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.
- **Geopolitical Risk:** When investing in US based companies with operations around the world and/or foreign domiciled companies, there is a risk of unexpected governmental actions that may jeopardize the value of an investment.

## Item 9: Disciplinary Information

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M. Kraus & Company and its employees have never been involved in legal or disciplinary events related to past or present investment clients.

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

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### **Financial Industry Activities**

M. Kraus & Company is not registered as a broker-dealer. None of its management persons are registered representatives of a broker-dealer.

Neither M. Kraus & Company nor any of its management persons is registered as (or associated with) a futures commissions merchant, commodity pool operator, or a commodity trading advisor or an associated person of these entities.

### **Other Financial Industry Affiliations**

Neither M. Kraus & Company nor any of its management persons have a material relationship or arrangement with any related person or entity in the financial industry.

### **Other Investment Advisors**

M. Kraus & Company does not recommend or select other investment advisors for its clients, and does not have any business relationships with investment advisors that may create a material conflict of interest.

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

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### **Code of Ethics**

M. Kraus & Company employees must comply with a Code of Ethics and Personal Securities Transactions. The Code describes the Firms' high standard of business conduct, and fiduciary duty to its clients. The Code's key provisions include:

- Standards of Business Conduct
- Policy on and reporting of Personal Securities Transactions
- A prohibition on Insider Trading
- Restrictions on the acceptance of significant gifts
- Procedures to administer and enforce the Code
- Requirement to maintain privacy of client information

The Chief Compliance Officer reviews all employee trades each quarter. Her trades are reviewed by Bonnie Heaslip, Operations Administrator. These reviews ensure that personal trading does not affect the markets, and that no clients of the Firm receive preferential treatment. Since most employee trades are small in value, the trades do not affect the securities markets.

All employees of M. Kraus & Company must acknowledge the terms of the Code of Ethics in writing at least annually.

Clients and prospective clients can obtain a copy of M. Kraus & Company's Code of Ethics by contacting Missy Kraus at (802) 985-2620.

### **Participation or Interest in Client Transactions – Personal Securities Transactions**

M. Kraus & Company and its employees may buy or sell securities for their personal accounts that are also held by clients. Employees must comply with the provisions of M. Kraus & Company's Code of Ethics. This includes provisions that mandate employee trades for their own accounts to be transacted only after client orders for those specific securities on that day have been filled and a prohibition against aggregating employee trades with trades for client accounts.

Under the Code, certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of M. Kraus & Company's clients. These include: direct obligations of the US Government, bankers' acceptances, bank CDs, commercial paper and high quality short term debt instruments including repurchase agreements, shares issued by money market funds, shares issued by open-end funds other than reportable funds and shares issued by unit trusts that are invested exclusively in one or more open-end funds none of which are reportable funds.



### **Participation or Interest in Client Transactions – Principal/Agency Cross**

M. Kraus & Company does not affect principal cross transactions for client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client.

From time to time, M. Kraus & Company may be in a position to buy for certain clients securities which another of the Firm's clients must sell (typically to raise cash for an unexpected withdrawal), assuming the transaction is beneficial to both clients. Through the execution of the Firm's Investment Management Agreement (paragraph 6), clients authorize M. Kraus & Company to facilitate such a cross transaction. This cross transaction is executed through an independent broker/dealer who determines the price for both the seller and the buyer. The commissions are borne by the respective clients.

### **Participation or Interest in Client Transactions - Aggregation**

M. Kraus & Company and its employees may not participate in aggregated trades with client accounts.

## Item 12: Brokerage Practices

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### Research and Other Soft Dollar Benefits

M. Kraus & Company receives research and other products or services, other than execution, from broker-dealers or third parties in connection with client securities transactions (soft dollar benefits).

Currently, M. Kraus & Company receives services from Ned Davis Research (market and economic database history) under a soft dollar arrangement with a broker/dealer. By utilizing client brokerage commissions to obtain research or other products and services, M. Kraus & Company receives a benefit because it doesn't have to produce or pay for the research, products or services. This practice presents a potential conflict of interest, as M. Kraus & Company has the incentive to select a broker-dealer based on its interest in receiving the research or other products or services, rather than on its client's interest in receiving most favorable execution. If research or other services are provided by a particular broker, M. Kraus & Company may pay a brokerage commission in excess of that which another broker customarily used by M. Kraus & Company and who does not supply research or other services might have charged for the same transaction. M. Kraus & Company will ensure that any cost for the additional research services will be in line with the services provided. Under the current soft dollar arrangement, this potential conflict is mitigated because the brokerage commissions paid to the particular broker are generally similar and very competitive with commissions paid to other brokers.

M. Kraus & Company's soft dollar policy is to:

- Examine soft dollar arrangements for research products and services that assist in the investment decision-making process;
- Make a good faith determination of the value of the research product or service in relation to the commissions paid;
- Maintain soft dollar arrangements for those research products and services that assist in the investment decision-making process; and
- Review, at least annually, the Firm's soft dollar arrangements.

Schwab Institutional, a division of Charles Schwab & Company, Inc, a FINRA registered broker-dealer, member SIPC (Schwab) also offers other services intended to help M. Kraus & Company manage and further develop its business enterprise. These services may include: (i) compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to M. Kraus & Company. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to M. Kraus & Company. Schwab may also provide other benefits such as educational events or occasional business entertainment of M. Kraus & Company personnel. In evaluating whether to recommend or require that clients

custody their assets at Schwab, M. Kraus & Company may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers and not solely the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

### **Brokerage for Client Referrals**

M. Kraus & Company does not receive client referrals from broker/dealers.

### **Directed Brokerage**

M. Kraus & Company often recommends that portfolio management clients establish brokerage accounts with Schwab, to maintain custody of clients' assets and to effect trades for their accounts. Although M. Kraus & Company may recommend that clients establish accounts at Schwab, it is the client's decision to custody assets with Schwab.

M. Kraus & Company is independently owned and operated and not affiliated with Schwab.

For M. Kraus & Company's client accounts maintained there, Schwab generally does not charge separately for custody services. Rather, Schwab is compensated through access to its institutional trading services and other transaction-related fees for securities trades that are executed through Schwab or that settle into Schwab accounts. Typically, these services are available only to Schwab's institutional investors.

In many cases, Schwab's discounted commissions and other fees are less costly to M. Kraus & Company's clients than custody arrangements through retail brokerage firms (who generally charge higher commissions) and trust departments (who generally charge custody fees).

For accounts in excess of \$125,000, Schwab allows M. Kraus & Company to direct transactions to other brokers for settlement at Schwab on a "prime broker" basis. Schwab applies a \$12 per trade per account service charge to settle prime broker trades. For accounts that do not meet the prime broker threshold, transactions with other brokers may be settled at Schwab subject to a \$12 "trade away" fee per trade per account. Clients receive several benefits from "prime broker" and "trade away" transactions:

1. Ability to deal with market makers in NASDAQ stocks,
2. Ability to purchase directly from an underwriter on new issues of stocks and bonds,
3. Greater access to competitive pricing,
4. Ability to direct trades to research firms that assist in M. Kraus & Company's investment analysis.

The brokerage commissions and/or transaction fees charged by Schwab or any other designated broker-dealer are exclusive of and in addition to M. Kraus & Company's fees.

M. Kraus & Company is electronically connected to Schwab via SchwabLink and Schwab's Institutional Website, services used by M. Kraus & Company to update the daily activity in clients' portfolios. The electronic links enable M. Kraus & Company to monitor on a daily basis activity in portfolios custodied at Schwab. Clients choosing a custodian other than Schwab may not benefit from this daily monitoring.

Schwab's products and services that assist M. Kraus & Company in managing and administering all or a substantial number of clients' accounts include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of M. Kraus & Company fees from its clients' accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

Schwab also makes available to M. Kraus & Company other products and services that benefit M. Kraus & Company, but may not directly benefit its clients' accounts as described above.

### **Client Directed Brokerage**

While not routine, there are times when a client may direct M. Kraus & Company to use a particular broker-dealer for custody or to execute some or all transactions for the client. When possible, M. Kraus & Company requests that the client be given a favorable commission rate. However, M. Kraus & Company cannot be responsible for the best execution of a trade or competitive commission rates in these situations.

### **Trade Aggregation**

M. Kraus & Company may aggregate trades for multiple accounts when appropriate.

At the sole discretion of the Firm, aggregate purchases or sales of the same security, instrument or obligation may be transacted on the same day through Schwab's master account for multiple accounts of one or more of the Firm's clients. If the order is filled at different prices during the day, the prices are averaged for the day so that all participating accounts receive the same price. If an order has not been filled completely so that there are not enough shares to allocate among all the clients equally, shares will be allocated in good faith, based on the following considerations: amount of cash in the account, existing asset allocation and industry exposure, risk profile, type of security, and additional commission costs associated with a partially filled order.

There are situations where the same security may also be purchased/sold in individual accounts (rather than the master account) on the same day where the price will be subject to timing, thereby resulting in price variation.

Accounts for M. Kraus & Company or its employees will not be included in an aggregated trade with client accounts.



## Item 13: Review of Accounts

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### Reviews

Each client portfolio receives continuous monitoring by one of M. Kraus & Company's portfolio managers, Missy Kraus and Chris Capano. This is intended to ensure that each portfolio is invested in accordance with the client's investment objectives and risk tolerance. Portfolios are also reviewed for proper levels of diversification.

### Review Triggers

Other conditions that may trigger a review are changes in market, political or economic conditions, tax laws, new investment information, and changes in a client's own situation.

### Reporting

Each month, the custodian provides clients with an account statement for each client account, which may include individual holdings, cost basis information, deposits and withdrawals, accrued income, dividends, and performance. Clients who use Schwab as their custodian receive confirmations on trades executed by Schwab. When non-Schwab brokers execute trades, clients receive confirmations from Schwab (not the executing broker). Schwab's confirmation will indicate the name of the executing broker.

Regular contact is maintained with most clients via telephone and email and annual meetings are encouraged to review portfolio and investment objectives.

M. Kraus & Company also provides clients with a Quarterly Appraisal report including:

1. A summary of holdings, including number of shares, cost basis, market value, summary of quarterly transactions, interest and dividends received, realized gains and losses, and expenses;
2. Quarterly newsletter, written by M. Kraus & Company, discussing a current investment related topic;
3. A copy of the quarterly fee invoice.

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

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### **Other Compensation – Brokerage Arrangements**

See disclosure under Item 12, Brokerage Practices regarding compensation, including economic benefits received in connection with giving advice to clients.

### **Compensation – Client Referrals**

M. Kraus & Company has been fortunate to receive many client referrals over the years. The referrals came from current clients, estate planning attorneys, accountants, employees, personal friends of employees and other similar sources. The firm does not compensate anyone for these referrals.

## Item 15: Custody

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### **Custody – Fee Debiting**

Clients may authorize M. Kraus & Company to debit fees directly from the client's account at the custodian. For these clients, M. Kraus & Company electronically submits the advisory fee amount to the custodian. This file includes the amount of the advisory fee and the client account number to debit. Simultaneously, clients are mailed the copy of the invoice, along with a Quarterly Appraisal package. This invoice includes the portfolio value used to calculate the fee, the amount of the fee, the period covered by the fee and the account debited to pay the fee. All activity, including payment of advisory fees, appears on the client's monthly statement from their custodian. Some clients prefer to pay the investment management fee directly; in this case, they receive either an email or a paper copy of the bill including all of the information listed above, along with a quarterly appraisal package. This activity will not appear on the client's monthly statement from their custodian and no transactions are generated at the custodian.

### **Custody – Trusteeship/Executor and Other**

Upon the unsolicited request of a client, M. Kraus & Company or one of its employees may agree to serve as co-trustee or sole trustee of an account for which the firm receives investment management fees. Clients contemplating such arrangements are advised that, while not an uncommon practice, there may be an inherent conflict of interest. When an investment adviser also serves as trustee, the trustee is not independent. To minimize this conflict, M. Kraus & Company strongly encourages clients to appoint at least one co-trustee that is not affiliated with M. Kraus & Company or to make arrangements for duplicate statements to be delivered to an independent third party who will serve as the Client's representative. Accounts for which a principal, affiliate or employee of M. Kraus & Company serves as trustee/co-trustee participate in purchase and sale transactions on the same basis as M. Kraus & Company's other clients.

When M. Kraus & Company or one of its employees serves as a co-trustee or sole trustee of an account for which the firm receives no investment management fees, trustee services will be charged at a rate of \$200 per hour.

M. Kraus & Company may also have standing letters of authorization (SLOAs) for a small number of clients. These authorizations give M. Kraus & Company the authority to make cash transfers on behalf of clients to addresses previously designated in writing by the clients.

M. Kraus & Company complies with the SEC's Custody Rule for the forms of custody describe above; annually, the Firm is subject to a Surprise Examination by an independent accountant for these accounts.

Clients contemplating such arrangements are advised that, while not an uncommon practice, there may be an inherent conflict of interest when an investment advisor also



serves as trustee because the trustee is not independent. To minimize this conflict of interest, M. Kraus & Company strongly encourages clients to appoint at least one co-trustee that is not affiliated with M. Kraus & Company or to make arrangements for duplicate statements to be delivered to an independent third party who will serve as the Client's representative.

Accounts for which M. Kraus & Company or an employee serves as trustee/co-trustee participate in purchase and sale transactions on the same basis as M. Kraus & Company's other clients.

### **Custody – Check Signing**

M. Kraus & Company or a related person does not have check signing authority over client accounts with the exception of trusteeship. In the case of trusteeship, as indicated above, M. Kraus & Company is subject to an annual Surprise Examination by an independent accountant.

### **Custody – Account Statements**

As described above, clients receive monthly statements from the qualified custodian that holds and maintains client's investment assets. Clients are urged to carefully review such statements and compare such official custodial records to the account statements or other reports that M. Kraus & Company provides to the client. M. Kraus & Company statements may vary from custodial statements based on accounting procedures, reporting dates, valuation methodologies of certain securities and inclusion of accrued interest amounts.

## Item 16: Investment Discretion

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Through the Investment Advisory Agreement, M. Kraus & Company receives written consent by clients for full discretion to buy and sell securities in amounts that are believed to be in accordance with the client's investment objectives.

A limited power of attorney executed between the custodian and the client allows M. Kraus & Company to execute trades on behalf of clients. When such limited powers exist, M. Kraus & Company receives full discretion to determine, without obtaining specific client consent, the amount and type of securities to be bought to satisfy client account objectives as well as the broker/dealer to be used in executing transactions and determining the commission rates paid. Factors that influence M. Kraus & Company's selection of broker/dealers are: best execution, financial strength and research capabilities. M. Kraus & Company regularly directs trades to brokers that supply M. Kraus & Company with research. This research usually benefits all or a substantial number of M. Kraus & Company's client accounts, without regard to whether they are included in trades with a specific broker/dealer. When appropriate, clients may pay slightly higher commissions for research (by approximately \$0.03 to \$0.06 per share).

Additionally, M. Kraus & Company may accept any reasonable limitation or restriction to such authority on the account placed by the client. All limitations and restrictions placed on accounts must be presented to M. Kraus & Company in writing.

## Item 17: Voting Client Securities

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In most instances, M. Kraus & Company has instituted the policy that it will not vote proxies for Clients. If requested, M. Kraus & Company may provide advice to clients regarding proxy votes. Clients receive the proxy voting materials directly from the custodian or transfer agent.

M. Kraus & Company has full discretion to vote on other corporate actions such as bankruptcies, shareholder litigation, mergers and acquisitions. Clients receive notification of these corporate actions directly from either custodians or transfer agents.

If any conflict of interest exists, it will be disclosed to the client.

On a very limited basis, M. Kraus & Company may vote proxies for certain clients. When the responsibility to vote proxies has been assigned to M. Kraus & Company, the firm's utmost concern is that all decisions be made solely in the best interest of the client. M. Kraus & Company will act in a prudent and diligent manner intended to enhance the economic value of the assets of the client's portfolio.

Missy Kraus, Chief Compliance Officer, is ultimately responsible for ensuring that all proxies received by M. Kraus & Company are voted in a timely manner and in a manner consistent with M. Kraus & Company's determination of the clients' best interests. Although many proxy proposals can be voted in accordance with M. Kraus & Company's established guidelines, M. Kraus & Company recognizes that some proposals require special consideration, which may dictate that M. Kraus & Company makes an exception to the guidelines.

Clients may direct M. Kraus & Company's vote; direction must be received in writing.

Clients may contact Missy Kraus at (802) 985-2620 for information about M. Kraus & Company's Proxy policies. Clients may also request information about how M. Kraus & Company voted any proxies on behalf of their account(s).

## Item 18: Financial Information

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M. Kraus & Company 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.

M. Kraus & Company is not required to provide a balance sheet; M. Kraus & Company does not require both prepayment of fees of more than \$1,200 per client and more than six months in advance.

**M. Kraus & Company**  
**Form ADV Part 2B**  
**Investment Adviser Brochure Supplement**

**Supervisor: Aileen J. (Missy) Kraus**

**Supervisor of:**  
Christopher M. Capano  
Denise M. Dalton

**March 2012**

This brochure supplement provides information about the Firm's Supervised Persons that supplements the M. Kraus & Company's brochure. You should have received a copy of that brochure. Please contact Aileen J. (Missy) Kraus, President and Chief Compliance Officer, if you did not receive M. Kraus & Company's brochure or if you have any questions about the contents of this supplement.

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

4076 Shelburne Road, Building A Suite 7-C  
Shelburne, Vermont 05482  
(802) 985-2620  
[missy@mkrausco.com](mailto:missy@mkrausco.com)

## Educational Background and Business Experience

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### Education and Business Background

M. Kraus & Company requires that employees giving advice to clients have prior experience in the investment business. This includes more than three years of analyzing investment securities and structuring portfolios. A college education is required for employees newly hired to provide investment advice. Graduate studies are encouraged in the form of a Chartered Financial Analyst (CFA) designation or a Masters of Business Administration.

### Supervised Persons

#### **Aileen (Missy) Jane Kraus**

Born 1953

#### **Business Background:**

M. Kraus & Company  
President and Chief Compliance Officer

1996 – Present

#### **Formal Education after High School:**

Vassar College BA – Economics  
New York University Stern School of Business MBA – Finance

#### **Professional Designations and Licenses:**

Chartered Financial Analyst (CFA)  
North American Securities Administrators Association Uniform Investment Advisor Law Examination, Series 65

#### **Christopher Michael Capano**

Born 1967

#### **Business Background:**

M. Kraus & Company  
Portfolio Manager

2004 – Present

Phoenix Investment Partners  
Vice President

1999 – 2003

#### **Formal Education after High School:**

University of Vermont, BS in Small Business Management

#### **Professional Designations and Licenses:**

North American Securities Administrators Association Uniform Investment Advisor Law Examination, Series 65

**Denise Marie Dalton**

Born 1964

**Business Background:**

M. Kraus & Company  
Portfolio Administrator

1996 – present

**Formal Education after High School:**

Heald Business College  
Diploma in Business Accounting and Computer Applications

**Professional Designations and Licenses:**

North American Securities Administrators Association Uniform Investment Advisor Law Examination, Series 65

**Professional Certifications**

The minimum requirements for a **Chartered Financial Analyst (CFA)** designation are:

**Issued by:** CFA Institute

**Prerequisites/Experience Required:** Candidate must meet one of the following requirements:

- Undergraduate degree and 4 years of professional experience involving investment decision-making, or
- 4 years qualified work experience (full time, but not necessarily investment related)

**Educational Requirements:** Self-study program (250 hours of study for each of the 3 levels)

**Examination Type:** 3 course exams

**Continuing Education/Experience Requirements:** None

## Disciplinary Information

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Neither M. Kraus & Company nor any management persons have ever been involved in any activities resulting in a disciplinary disclosure.



## Other Business Activities

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As disclosed in Form ADV Part 2A Item 10 – Other Financial Industry Activities and Affiliations, no Supervised Persons are involved in Outside Business Activities.

As disclosed in Form ADV Part 2A Item 6 – Performance-based Fees and Side-by-Side Management, neither M. Kraus & Company nor any supervised persons receive commissions, bonuses or other compensation based on the sale of securities or other investment products.

## **Additional Compensation**

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No Supervised Person receives any economic benefit outside of regular salaries and year-end bonuses related to the firm's annual profitability.

## Supervision

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Missy Kraus, President, supervises all persons named in this Form ADV Part 2B Investment Adviser Brochure Supplement. The Firm maintains only one office, enabling the entire staff to work closely together. This helps to foster our team approach to account management and supervision. There are no “assignments” of certain personnel to specific accounts. Missy Kraus and Chris Capano are responsible for the development and implementation of the investment process, including asset allocation and security selection. Denise Dalton and Bonnie Heaslip are responsible for the administrative and operational functions of the accounts.

Missy Kraus supervises these persons by holding regular staff, investment and other ad hoc meetings. In addition, Missy Kraus regularly reviews client reports, emails, and trading, as well as employees’ personal securities transaction and holdings reports. Missy Kraus may be reached at (802) 985-2620.