



**Otto & Associates, Inc.**  
**200 Katonah Avenue**  
**Katonah, NY 10536**

Phone 914-232-5379

Fax 914-232-5378

[www.ottoandassociates.com](http://www.ottoandassociates.com)

email [info@ottoandassociates.com](mailto:info@ottoandassociates.com)

**Firm Brochure**  
(Part 2 of Form ADV)

This brochure provides information about the qualifications and business practices of Otto & Associates, Inc. If you have any questions about the contents of this brochure, please contact us at 914-232-5379, or by email to [info@ottoandassociates.com](mailto:info@ottoandassociates.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 Otto & Associates, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

March 5, 2012

Otto & Associates, Inc.

## **Material Changes**

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### **Annual Update**

The Material Changes section of this brochure will be updated annually or when material changes occur since the previous release of the Firm Brochure.

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

There have been no material changes, other than the dollar amount of assets managed, since the Firm's previous brochure, dated March 18, 2011.

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### **Full Brochure Available**

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at 914-232-5379 or by email to [info@ottoandassociates.com](mailto:info@ottoandassociates.com).

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## Advisory Business

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### Firm Description

Otto & Associates, Inc., founded in 1991, provides personalized confidential financial planning and investment management, primarily to individuals and families, and also to charitable organizations, trusts, estates, pension and profit sharing plans, and small businesses. Advice is provided through consultation with the client and may include: determination of financial objectives, budgeting and cash flow management, tax planning, insurance review, investment management, education funding, retirement planning, and estate planning.

Otto & Associates, Inc. (O&A) is strictly a fee-only financial planning and investment management firm. The firm does not sell any commissioned products such as annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other. 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.

Investment advice, an integral part of financial planning, is provided in consultation with our clients. O&A does not act as a custodian of client assets. The client always maintains asset control. O&A places trades for clients under a limited power of attorney. Investments are reviewed regularly and monthly reports are furnished by the custodians. O&A is always available to review these reports with clients.

The first step in working with clients is an initial meeting, which may be by telephone, at which specific financial needs are identified. The initial meeting, for which there is a \$450 charge, is considered an exploratory interview to determine the extent to which financial planning and investment management may be beneficial to the client, and advice may be given if sufficient information is provided.

If the initial meeting, perhaps with some follow-up, is not sufficient to resolve the financial issues presented, within a few days clients are presented with a proposal that summarizes the issues and includes estimates of the cost. As the planning relationship develops, periodic reviews are done to review progress and help ensure that progress is made toward meeting financial goals.

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.

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## **Principal Owners**

David W. Otto is a 51% stockholder and Susan Otto Goodell is a 25% stockholder. Elizabeth Otto Westermann, who is not active in the business, is a 24% stockholder.

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## **Types of Advisory Services**

Otto & Associates, Inc. provides investment supervisory services, also known as asset management services, and furnishes investment advice through consultations. On more than an occasional basis, O&A furnishes advice on matters not involving securities, such as financial planning matters.

As of 12/31/11, Otto & Associates, Inc. manages approximately \$84.5 Million in assets for approximately 110 clients, all of which is managed on a discretionary basis.

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## **Tailored Relationships**

Advisory services are tailored to the individual needs of clients. The goals and objectives for each client are documented in our client relationship management system.

Clients may impose restrictions on investing in certain securities or types of securities. Agreements may not be assigned without client consent.

The following services define the typical client relationships.

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## **Financial Planning Services**

A financial plan is designed to help the client with all aspects of financial planning without ongoing investment management after the financial plan is completed.

The financial plan may include, but is not limited to: a net worth statement; a cash flow statement; a review of investment accounts, including reviewing asset allocation and providing repositioning recommendations; strategic tax planning; a review of retirement accounts and plans including recommendations; a review of insurance policies and recommendations for changes, if necessary; one or more retirement scenarios; estate planning review and recommendations; and education planning with funding recommendations.

Detailed investment advice and specific recommendations are provided as part of a financial plan. Implementation of the recommendations is at the discretion of the client.

The fee for a financial plan is predicated upon the facts known at the start of the engagement. The minimum fee is \$2,500 and is negotiable. Since financial planning is a discovery process, situations occur wherein the client is unaware of certain financial exposures or predicaments.

Otto & Associates, Inc. may also prepare a retirement plan, which is a projection to help determine whether a client is on track for a comfortable retirement. If not, solutions are explored. The retirement plan is then updated and progress towards meeting that goal is assessed. The minimum fee for a retirement plan is \$1,500 and is generally not negotiable. There is no charge for monitoring the plan.

In the event that the client's situation is substantially different than disclosed at the initial meeting, a revised fee may be provided by mutual agreement. The client must approve the change of scope in advance of the additional work being performed when a fee increase is necessary.

After delivery of a financial plan or retirement plan, future face-to-face meetings may be scheduled as necessary. Follow-on implementation work over and above the scope of the originally agreed fee is billed separately at the rate of \$225 per hour.

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## **Advisory Services**

Most clients choose to have Otto & Associates, Inc. manage their assets in order to obtain ongoing in-depth financial advice and planning. All aspects of the client's financial affairs are reviewed. Realistic and measurable goals are set and objectives to reach those goals are defined. As goals and objectives change over time, suggestions are made and implemented on an ongoing basis.

The scope of work and fee for advisory services is provided to the client prior to the start of the relationship. Advisory services generally include: cash flow management; insurance review; investment management (including performance reporting); education planning; retirement planning; estate planning; and tax planning, as well as the implementation of recommendations within each area.

The annual advisory service fee is based on a percentage of the investable assets according to the following schedule:

1.0% on the first \$1,250,000

0.5% above \$1,250,000

The minimum annual fee is \$2,500; the fee is negotiable. The advisory service fee is payable quarterly in advance. Current client relationships may exist where the fees are higher or lower than the fee schedule above.

The length of service to the client is at both the client's and the firm's discretion. The client or the firm may terminate the relationship by notice to the other party.



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## **Retainer Services**

In some circumstances, an annual retainer fee may be offered in lieu of an asset based fee for advisory services when it is more appropriate to work on a fixed-fee basis. The annual fee for a retainer arrangement is negotiable.

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## **Hourly Planning Engagements**

O&A provides hourly planning services for clients who need advice on a limited scope of work. The hourly rate for limited scope engagements is \$225.

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## **Asset Management**

Assets are invested primarily in no-load mutual funds, through discount brokers/custodians, and we also offer other types of investments such as Closed End Funds and alternative investments, when appropriate. Fund companies and private placement sponsors charge each investor an investment management fee that is disclosed in the fund prospectus or in legal documents, such as a private purchase memorandum. Discount brokerage companies and custodians may charge a transaction fee for the purchase or sale of some funds or investments. O&A does not receive any compensation, in any form, from fund or management companies.

Investments may also include: equities (stocks), warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, U. S. government securities, options contracts, futures contracts, and interests in partnerships. Initial public offerings (IPOs) are not available through O&A.

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## **Termination of Agreement**

A Client may terminate any of the aforementioned agreements at any time by notifying Otto & Associates, Inc. and paying the rate for the time spent on the advisory engagement prior to notification of termination. If the client made an advance payment, O&A will refund any unearned portion of the advance payment.

Otto & Associates, Inc. may terminate any of the aforementioned agreements at any time by notifying the client in writing. If the client made an advance payment, O&A will refund any unearned portion of the advance payment.

## **Fees and Compensation**

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### **Description**

Otto & Associates, Inc. bases its fees on a percentage of assets under management, hourly charges, or fixed fees.

Financial plans and retirement plans are priced according to the degree of complexity associated with the client's situation.

Fees are negotiable.

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## **Fee Billing**

Investment management fees are billed quarterly, in advance, meaning that we invoice you at the beginning of the three-month billing period. Payment in full is expected upon invoice presentation. Fees are usually deducted from a designated client account to facilitate billing. The client must consent in advance to direct debiting of their investment account.

Fees for financial plans and retirement plans are generally billed upon delivery of the financial plan.

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## **Other Fees**

Custodians or discount brokers may charge transaction fees on purchases or sales of certain mutual funds, stocks, closed end funds, exchange-traded funds, or alternative investments. 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.

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## **Expense Ratios**

Mutual funds generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 0.50 means that the mutual fund company charges 0.5% per year for their services. These fees are in addition to the fees paid by you to O&A. Managers of alternative investments generally charge a management fee, as well.

Performance figures quoted by mutual fund companies in various publications are after their fees have been deducted.

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## **Past Due Accounts and Termination of Agreement**

Otto & Associates, Inc. reserves the right to stop work on any account that is more than 90 days overdue. In addition, O&A reserves the right to terminate any financial planning engagement where a client has willfully concealed or has refused to provide pertinent information about financial situations when necessary and appropriate, in O&A's judgment, to providing proper financial advice. Any unused portion of fees collected in advance will be refunded within 30 days.

## Performance-Based Fees

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### Sharing of Capital Gains

Fees are not based on a share of the capital gains or capital appreciation of managed securities. Otto & Associates, Inc. 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 to the client. However, the nature of asset-based fees allows O&A to participate in the growth of the client's wealth. This also means that our fees can decline when the client's portfolio declines in value.

## Types of Clients

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### Description

Otto & Associates, Inc. generally provides investment advice to individuals, charitable organizations, pension and profit sharing plans, trusts, estates, and small businesses. Client relationships vary in scope and length of service.

### Account Minimums

The minimum account size is \$250,000 of assets under management, which equates to an annual fee of \$2,500. When an account falls below \$250,000 in value, the minimum annual fee of \$2,500 is charged.

Otto & Associates, Inc., in its sole discretion, may waive the account minimum and the minimum fee. Accounts of less than \$250,000 may be set up when the client and the advisor anticipate the client will add additional funds to the accounts, bringing the total to \$250,000 within a reasonable time. Other exceptions will apply to employees of O&A and their relatives, or relatives of existing clients, to cite a few examples.

Clients receiving ongoing asset management services will be assessed a \$2,500 minimum annual fee, unless waived by O&A. Clients with assets below the minimum account size may pay a higher percentage rate on their annual fees than the fees paid by clients with greater assets under management.

# Methods of Analysis, Investment Strategies and Risk of Loss

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## Methods of Analysis

The primary investment strategy used for client accounts is asset allocation. Fundamental analysis is also used. Technical analysis is rarely used, other than tracking discounts of Closed End Funds.

The main sources of information that O&A uses are Morningstar Principia mutual fund information, Charles Schwab & Company's research, Advisor Intelligence, the Investors Guide to Closed End Funds (Thomas Herzfeld), financial newspapers, magazines, and television, and various information providers who publish information on the World Wide Web. The firm may also use research materials prepared by others, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases.

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## Investment Strategies

Asset allocation is used to ensure that client investments are globally diversified to control the risk associated with traditional U.S. stock markets.

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time. Mutual funds are the core of the strategy and are generally held long term, although they are constantly monitored and may be held only a short period of time if management, conditions, or strategies change. Other strategies may include shorter-term purchases or trading, generally used by O&A to take advantage of closed end fund discounts.

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## Risk of Loss

All investment programs have certain risks that are borne by the investor. 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 today will not buy as much as a dollar next year, 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 of 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 of 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.

## **Disciplinary Information**

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### **Legal and Disciplinary**

The firm and its employees have not been involved in legal or disciplinary events related to past or present investment clients.

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

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### **Code of Ethics**

The employees of Otto & Associates, Inc. have committed to a Code of Ethics, a copy of which is available for review by clients and prospective clients upon request.

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

O&A and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades. Employees comply with the provisions of the Otto & Associates, Inc. Compliance Manual.

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## **Personal Trading**

The Chief Compliance Officer (CCO) of Otto & Associates, Inc. is David W. Otto. He reviews all employee trades each quarter. His trades are reviewed by Deborah L. Maher. The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm receive preferential treatment. Most employee trades are small mutual fund trades, closed end fund or exchange-traded fund trades, or small stock trades of such size that the trades do not affect the securities markets. All securities transactions are approved by the CCO in advance.

## **Brokerage Practices**

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### **Selecting Brokerage Firms**

Otto & Associates, Inc. does not have any affiliation with product sales firms. Specific custodian recommendations are made to clients based on their need for such services. O&A recommends custodians based on the proven integrity and financial responsibility of the firm and the best execution of orders at reasonable commission rates.

O&A recommends discount brokerage firms and trust companies (qualified custodians) such as Charles Schwab & Co., Inc, TIAA-CREF, and Millennium Trust Company. O&A is an advisor with those three custodians.

Otto & Associates, Inc. does not receive fees or commissions from any of these arrangements.

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### **Best Execution**

Otto & Associates, Inc. reviews the execution of trades at each custodian annually. Trading fees charged by the custodians are also reviewed annually. O&A does not receive any portion of the trading fees.

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### **Soft Dollars**

Otto & Associates, Inc. receives a software maintenance credit from Charles Schwab & Company, which was \$2,500 last year, because some client assets are custodied at Schwab. This credit offsets annual maintenance fees for our portfolio management software. Schwab also provides trading and research services that are otherwise generally available only to institutional investors.

All clients benefit from the software credit as it reduces the firm's overall expenses and also from trading and research services that would not otherwise be available to them.

The selection of Charles Schwab & Company as a custodian for clients is not affected by this nominal credit or other services.

TIAA-CREF also provides services that are otherwise generally available only to institutional investors. All clients with TIAA-CREF accounts benefit from services that would not otherwise be available to them.

The selection of TIAA-CREF as a custodian for clients is generally made by the clients' employer, and not by Otto & Associates, Inc., and so is not affected by these services.

Millennium Trust Company provides reporting services and the selection of Millennium Trust as a custodian for clients is not affected by these services.

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## **Order Aggregation**

Securities trades may be aggregated to ensure that clients are treated fairly; trades may be purchased in the Otto & Associates, Inc. master account at Charles Schwab and allocated to the appropriate clients in an effort to benefit clients fairly.

## **Review of Accounts**

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### **Periodic Reviews**

Account reviews are generally performed at least quarterly by advisors David W. Otto, Deborah Levy Maher, and/or Susan Otto Goodell. Account reviews are performed more frequently when market conditions dictate.

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### **Review Triggers**

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

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### **Regular Reports**

Account reviewers are members of the firm's de facto Investment Committee; there is no Investment Committee per se, but the three reviewers in effect act as the Investment Committee. They are instructed to consider the client's current security positions and the likelihood that the performance of each security will contribute to the investment objectives of the client. Clients receive communications on at least an annual basis.

## **Client Referrals and Other Compensation**

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### **Referrals**

Otto & Associates, Inc. has been fortunate to receive many client referrals over the years. The referrals came from current clients, accountants, attorneys, employees, personal friends of employees and other similar sources. The firm does not compensate referring parties for these referrals. Likewise, the firm does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

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### **Other Compensation**

None.

### **Custody**

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### **Account Statements**

All assets are held at qualified custodians, which means the custodians provide account statements directly to clients at their address of record or on line with email notice of delivery, monthly or quarterly.

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### **Performance Reports**

Clients are urged to compare the account statements received directly from their custodians to the performance reports provided by O&A.

### **Investment Discretion**

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### **Discretionary Authority for Trading**

Otto & Associates, Inc. accepts discretionary authority to manage securities accounts on behalf of clients. O&A has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold.

The client approves the custodian to be used and the fees or commission rates paid to the custodian. O&A does not receive any portion of the transaction fees or commissions paid by the client to the custodian on certain trades.

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### **Limited Power of Attorney**

A limited power of attorney is a trading authorization for this purpose. Clients sign a limited power of attorney so that we may execute the trades on their behalf.



## **Voting Client Securities**

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### **Proxy Votes**

Unless the client designates otherwise, Otto & Associates, Inc. votes proxies for securities over which it maintains discretionary authority consistent with its proxy voting policy. A copy of O&A's proxy voting policy is available upon request.

When assistance on voting proxies is requested, O&A will provide recommendations to the Client. If a conflict of interest exists, it will be disclosed to the Client.

## **Financial Information**

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### **Financial Condition**

Otto & Associates, Inc. does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because O&A does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than \$1,200 per client, and six months or more in advance.

## **Disaster Recovery Plan**

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### **General**

Otto & Associates, Inc. has a Disaster Recovery Plan in place, which is essentially a business continuity plan that provides detailed steps to mitigate and recover from the loss of office space, communications, services or key people.

### **Disasters**

The Disaster Recovery Plan covers both natural and man-made disasters such as snow storms, hurricanes, flooding, power outages, fire, nuclear emergency/evacuation, terrorism, and internet outage. Electronic files are backed up daily and archived offsite. As O&A has two offices, one in Katonah, NY and one in Norwich, VT, one office could support ongoing operations in the event the other is unavailable.

### **Loss of Key Personnel**

Otto & Associates, Inc. has a plan in place to ensure that the business would continue with the remaining personnel in the in the event of David W. Otto's disability or death.

# Information Security Program

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## Information Security

Otto & Associates, Inc. maintains an information security program to reduce the risk that your personal and confidential information may be breached.

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## Privacy Notice

Otto & Associates, Inc. is committed to maintaining the confidentiality, integrity, and security of the personal information that is entrusted to us. A copy of O&A's privacy notice is mailed annually to clients and is available upon request.

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## Brochure Supplement (Part 2B of Form ADV)

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### Education and Business Standards

Otto & Associates, Inc. requires that advisors in its employ have a bachelor's degree and further coursework demonstrating knowledge of financial planning, particularly Certified Financial Planner™ (CFP®) coursework. Additionally, advisors must have work experience that demonstrates their aptitude for financial planning and investment management.

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### Professional Certifications

Employees have earned certifications and credentials that are required to be explained in further detail.

Certified Financial Planner™ (CFP®): Certified Financial Planners are licensed by the CFP Board to use the CFP mark. CFP certification and ongoing requirements include:

- Bachelor's degree from an accredited college or university.
- Completion of the financial planning education requirements set by the CFP Board ([www.cfp.net](http://www.cfp.net)).
- Successful completion of the 10-hour CFP® Certification Exam unless grandfathered.
- Three-year qualifying full-time work experience.
- Uphold ethical standards including the duty to act as a fiduciary, which means CFP® professionals must provide financial planning services in the best interests of their clients.
- Meet biannual continuing education requirements.

# Investment Advisor Biographies

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## DAVID W. OTTO

### Background:

- Year of birth: 1941
- Education: B.A. Morningside College 1963, M. Div. Union Theological Seminary 1966, D. Min. Andover Newton Theological Seminary 1984
- CFP® since 1991

### Business Experience:

- Otto & Associates, Inc., Founder, President, and Chief Compliance Officer (CCO) (1991 – Present)
- Peltz Financial Services, Consultant (1990 – 1991)
- Center for Counseling & Psychotherapy, Executive Director (1982 – 1991)
- FRMH, Inc., Director, Pastoral Counselor (1974 – 1991)

Disciplinary Information: None

Other Business Activities: Mr. Otto has served on a number of professional and not-for-profit governing bodies and committees. He is currently Treasurer of the Montshire Museum of Science in Norwich, Vt and has just completed a five year term on the Board of High Horses Therapeutic Riding Program, the last three of which he was Chairman of the Board. In the past he has served on a number of committees of the National Association of Personal Financial advisors (NAPFA), a national professional association of Fee-Only financial planners. He has also served on the Board of the Katonah Village Library (where he was Chairman for two years), the Zoning Board of Appeals for the Town of Bedford, and the Greater Hudson Valley Chapter of the Financial Planning Association (FPA).

In addition to directing pastoral counseling centers in the Poughkeepsie area from 1976 to 1991, Mr. Otto worked part-time in the 1980s with investment real estate and founded a corporation dedicated to real estate financing.

Additional Compensation: None

Supervision: David W. Otto reviews all employees' work through frequent office interactions as well as remote interactions, including our client relationship management system.

Contact information: 914-232-5379   david@ottoandassociates.com

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## DEBORAH LEVY MAHER

### Background:

- Year of birth: 1956
- Education: B.A. Vassar College (1978)
- CFP® since 1989

### Business Experience:

- Otto & Associates, Inc., Financial Planner (1997 – Present)
- First Union National Bank, Branch Officer (1996 –1997)
- Chase Manhattan Bank and predecessors Chemical Bank and MHT, Vice President (1978 – 1996)

Disciplinary Information: None

Other Business Activities: Deborah Levy Maher is a member of the Financial Planning Association (FPA) and has served on the Board of the Greater Hudson Valley Chapter. Volunteer activities include pro bono financial planning through the FPA, and volunteering for Temple Israel of New Rochelle and other local organizations.

Additional Compensation: None

Supervision: Deborah Maher is supervised by David Otto, President and CCO. SUPERVISOR'S contact information: 914-232-5379

[david@ottoandassociates.com](mailto:david@ottoandassociates.com)

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## SUSAN OTTO GOODELL

### Background:

- Year of birth: 1966
- Education: B.A. Bates College (1988), M.Ed. Antioch University New England (1995)

### Business Experience:

- Otto & Associates, Inc., Financial Planner (2007 – Present)
- Newbury Elementary School (1994 – 2009)
- CFP® since 2011

Disciplinary Information: None

Other Business Activities: Susan Otto Goodell works for the High Horses Therapeutic Riding program, where she serves as Lead Instructor.

Additional Compensation: None

Supervision: Susan Otto Goodell is supervised by David Otto, President and CCO. SUPERVISOR'S contact information above.