

# Martorello Money Management, Inc.

**REGISTERED INVESTMENT ADVISOR**

**Registered Investment Advisor Brochure (Form ADV – Part 2A/2B) - Updated: March 2012**

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## Investment Advisor Brochure

(Form ADV – Part 2A/2B)

Updated: February 2012

Required Disclaimer: This brochure provides information about the qualifications and business practices of Martorello Money Management, Inc (“MMM”). If you have questions about the contents of this brochure, please contact us at the phone number/email listed above. The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission or by any state securities authority. Furthermore, being a “Registered” Investment Advisor does not imply a certain level of skill or training.

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

### Table of Contents

Item 1: Cover Page and Disclosure	p. 1
Item 2: Material Changes to this Document	Exhibit A
Item 3: Table of Contents	p. 2
Item 4: Description of Advisory Business	p. 3 – 4
Item 5: Fees and Compensation	p. 4 – 5
Item 6: Performance-Based Fees and Side-by-side Management (N/A)	p. 5
Item 7: Types of Clients	p. 6
Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss	p. 6 – 8
Item 9: Disciplinary Information (N/A)	p. 8
Item 10: Other Financial Industry Activities and Affiliations	p. 9
Item 11: Code of Ethics, Participation or Interest in Client Transactions And Personal Trading	p. 9 - 11
Item 12: Brokerage Practices	p. 11 – 14
Item 13: Review of Accounts	p. 14 – 15
Item 14: Client Referrals and Other Compensation	p. 16
Item 15: Custody	p. 16
Item 16: Investment Discretion	p. 17
Item 17: Voting Client Securities	p. 17
Item 18: Financial Information	p. 18
Item 19: Requirements for State-Registered Advisers	p. 19 – 20
Exhibit A: Material Amendment to Last Year's Form ADV	p. 21
Form ADV – Part 2B (Brochure Supplement – Team Bio's)	p. 22 – 27

## **Item 4: Description of Advisory Business**

Martorello Money Management, Inc. (“MMM”) is a privately-held Registered Investment Advisor (“RIA”) company that has been in business since Q1/2004, and is principally owned by Raphael A. Martorello and Megan G. Martorello.

MMM provides investment advisory and portfolio management services for private clients and companies through a Full Trading Authorization and / or a Limited Power of Attorney. MMM’s minimum asset requirements for new clients is \$150,000. There are no ongoing contribution requirements although this practice is highly recommended for ongoing savings, asset allocation, and tax efficiency purposes. MMM may make an exception to the above requirements at its sole discretion.

Clients undergo an introductory interview to outline their financial situation and to help MMM set risk tolerance and investment objectives. Clients are then categorized into one of three categories (Emerging, Active, or High-Net-Worth) based on the appropriateness of the investment strategy in relation to the amount of assets that MMM will be managing on behalf of the client. Within these categories, clients are further categorized by the percentage of assets that they hold in unrestricted investment accounts (e.g. a brokerage account that can invest in the universe of MMM desired product options) versus restricted investment accounts (e.g. 401K accounts with a limited number of mutual funds). Finally, clients are assigned to one of six risk profiles: aggressive, moderate-aggressive, moderate, conservative-moderate, conservative, and ultra-conservative.

Once categorized, clients are then provided with an active portfolio management service that is further detailed in the section marked “Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss,” and can be found later in this document.

MMM meets with clients periodically to review their financial situation, answer questions, and determine if any adjustments need to be made relative to their financial objectives, risk tolerance, and time horizon. For individual clients who have expressed interest, we offer a complimentary financial scenario analysis and goal tracking service to help client’s make major life decisions (e.g. moving to a different state, changes in jobs, retirement projections, cash flow analysis, college planning, etc), and to track how they are doing against their goals on an ongoing basis.

MMM provides 100% of the above services on a discretionary basis, managing \$36.2 million in client assets as of 12/31/2011. MMM performs daily management activities within the guidelines of an Investment Policy Statement (“IPS”), without day-to-day client consultation (known as “discretionary” management of assets).

<b>Registered Investment Advisor Brochure (Form ADV – Part 2A/2B) - Updated: March 2012</b>
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All funds are held in a client's own account at an independent brokerage firm(s), and each client authorizes invoices to be paid from their account(s).

Specifically, MMM provides:

1. Account setup and transfers to a selected Broker / Custodian.
2. Development of a Client Investment Policy Statement ("IPS"), along with a personalized savings & investment program\*
3. Discretionary selection of specific investments within the program.
4. Periodic adjustment of the asset allocation model within the stated client's category grouping and risk profile (see Chart I below for services and frequencies).
5. Weekly administration of portfolio rebalancing as assets move outside of a specified target range.
6. Production and distribution of individual quarterly performance reports.
7. Production and distribution of client newsletters every 45 days.
8. Ongoing reviews and updates of client goal-trackers.
9. Personalized advice and analysis to help make good decisions.

*Notes: \* Clients may request, and MMM may agree to, restrictions on investing or selling certain securities or types of securities*

## **Item 5: Fees & Compensation**

MMM's management fee is solely based on client assets under management. MMM does not utilize alternative compensation schemes such as mutual fund kick-backs, commissions, performance pay, etc....in an attempt to align client and advisor interests while minimizing potential conflicts of interest.

MMM's Management Fee Schedule is as follows (non-negotiable):

<u>Assets Under Mgmt</u>	<u>Incremental % Fee Charged Per Annum</u>
On the first \$250,000	2.50%
The next \$250,000	2.00%
The next \$250,000	1.50%
The next \$250,000	1.00%
In excess of \$1.0 Million	0.75%

\* Clients may be able to find competing advisory services at lower prices.

### Registered Investment Advisor Brochure (Form ADV – Part 2A/2B) - Updated: March 2012

Pro-rated fees are calculated and billed at the beginning of each calendar quarter, based on the current assets under management prior to the market open on the first day of the quarter. Fees are deducted mid-quarter, on the 45<sup>th</sup> day of the quarter. For the first quarter, the billing statement is prorated based on the client start date. Client start date is the date the contract is signed by both parties. However, management fees are not calculated or charged until the first day when funds arrive in the client's account(s). Upon account closure (at will by either party), prorated fees will be returned to client based on the day funds are withdrawn from Advisor's supervision in writing.

Advisory Fees are automatically deducted by MMM from the Client's account. In all cases, the Client receives an invoice from MMM prior to the withdrawal and withdrawals are authorized by the client through a signed Customer Agreement. Invoices are sent to clients at the beginning of each quarter along with their quarterly reporting packet. The Custodian also sends monthly account statements to the Client with the management fee transaction displayed in the month it is withdrawn. MMM sends the invoices to the custodian for withdrawal of fees on the 45<sup>th</sup> day of the quarter.

Clients incur portfolio expenses arising from brokerage transaction fees and underlying mutual fund expenses. MMM has taken numerous steps to minimize these investment costs by selecting a lower cost brokerage for clients to access, utilizing a number of free or no-transaction-fee funds, and selecting lower cost ETF funds for the predominant portion of client portfolios. Please refer to Item 12 of this brochure for more information regarding brokerage practices.

### **Item 6: Performance-Based Fees & Side-By-Side Management (N/A)**

MMM's management fee is solely based on client assets under management. MMM does not utilize alternative compensation schemes such as mutual fund kick-backs, commissions, performance pay, etc....in an attempt to align client and advisor interests.

## **Item 7: Types of Clients**

MMM services a number of different types of clients, including the following:

- Private individuals (taxable accounts, retirement accounts, educational accounts)
- High-net-worth individuals
- Trusts (personal and business accounts)
- Companies that have excess cash that they would like to have invested conservatively

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

MMM maintains a list of investable asset classes and our preferred investment product(s) within these asset classes. This list is continually refined as market conditions change and new products are introduced. For example, during the recent 2007-2009 market downturn, market conditions proved that many asset classes performed similarly and consequently offered little in terms of diversification benefits. Consequently, we undertook a research project to identify new asset classes that would have been uncorrelated, providing a diversification benefit. Our research helped to identify new asset classes and products that we have since added to our investable asset/product list for potential selection to client portfolios (e.g. Long-short funds, managed futures, currency funds, merger-arbitrage funds). This list is continually refined through a combination of independent analysis and purchased research, but always in an independent manner with the goal to find the lowest cost, best performing options for our clients (we do not receive even a single penny of outside compensation for selecting Fund A versus Fund B, in order to maintain our independence, act in the best interests of clients, and minimize conflicts of interest).

MMM then provides clients with the following investment services within their stated client grouping and risk profile, referencing the investable asset / product list described above (see Chart I below for frequency of services provided by client category):

- **Active Asset Allocation:** Quantitative analysis using MMM's proprietary 5-forces methodology (Fuel, Valuation, Sentiment, Technicals, Currency Effects) to develop investment targets for the various asset classes in each client's portfolio (e.g. x% of a client's portfolio to be invested in US-Large Cap Equity for Q2/2011). Investments that have historically exhibited higher returns along with higher volatility will have larger targets in more aggressive portfolios, while lower returning / lower volatility investments will have larger targets in more conservative portfolios. Additionally, client portfolios must be adjusted for the products available within their brokerage accounts (e.g. if x% is dedicated to Long-Short funds, and they do not exist in a client's limited 401K account, then this asset class is over-weighted in their unrestricted brokerage account(s)). As opposed to managers

### Registered Investment Advisor Brochure (Form ADV – Part 2A/2B) - Updated: March 2012

who develop their targets one time, MMM conducts this analysis and makes investable changes quarterly (semi-annually for emerging clients).

- Rebalancing: Buying of investments that have declined below their % targets by a defined variance, and selling investments that have risen above their % targets by a defined variance, in order to rebalance the portfolio to its targeted levels, effectively buying low and selling high in a systematic manner.
- Active Trading Services: Utilization of various MMM proprietary trading strategies in an attempt to lock-in profits and reduce or hedge against downturns. Active trading strategies include:
  - Technical value stops
  - Technical trailing stops
  - Valuation Ratio Swaps (e.g. oil v natural gas, gold v gold miners, etc.)
  - VXX short-term hedging model
  - NAV premium or discount model

Typical investments include ETFs, closed-end funds, open-ended funds, and individual company stocks across a broad base of different asset classes: US stocks, US bonds, Foreign stock, Foreign bonds, Emerging Markets, Raw Materials, Energy, Precious Metals, REITs, Currencies, Managed Futures, Long-Short Strategies, Absolute Return Strategies, Merger Arbitrage Strategies, etc. Both fundamental and technical analyses are used to select individual positions, while volatility-determined price targets are used to help determine entry and exit prices to lock in profits and attempt to minimize losses. Fundamental analysis includes quantitative and qualitative analysis of economic, valuation, sentiment, and currency variables, while technical analysis predominantly includes the use of charting techniques to identify patterns, and key price points for decision making. Money management principles are then applied to limit the exposure of a client's portfolio to the effects of any single investment. For example, an investment rule for the MMM team is to ensure that no single stock of a company will ever represent more than 5% of a client's total portfolio, unless a client specifically requires MMM to do so.

While MMM works hard to maximize client returns within an acceptable level of volatility for each client, investing involves risk of loss that clients should be prepared to bear. Additionally, considering our more active approach to investment management, there is the potential or additional drag on performance due to increased transaction costs and taxes. We attempt to minimize such additional drag through the use of commission-free and low-cost ETFs where possible, as well as intelligent placement of more actively traded investments within non-taxable retirement accounts.

# Martorello Money Management, Inc.

**REGISTERED INVESTMENT ADVISOR**

Registered Investment Advisor Brochure (Form ADV – Part 2A/2B) - Updated: March 2012

## Item 8: Chart I – MMM Services Provided by Client Group

	<b>Investment Strategy</b>	<b>Allocation Targets Developed</b>	<b>Rebalancing Frequency</b>
<b>Emerging Clients</b> (Qualified Assets < \$150,000)	MMM proprietary	Semi-Annually	Monthly
<b>Active Clients</b> (Qualified Assets > \$150,000)	MMM proprietary MMM Active Trading	Quarterly	Weekly
<b>High-Net-Worth (HNW) Clients</b> (Qualified Assets > \$2,000,000) (Ultra-Conservative Risk Profile)	MMM proprietary MMM Active Trading Muni-Bond Portfolio Fixed Income Portfolio Managed Futures Portfolio PSL High-Income	Quarterly	Weekly

Note: Qualified Assets are defined as assets that are in an unrestricted brokerage account where MMM can invest in securities as directed by its investment team and strategies. While MMM encourages clients to include more restricted accounts in their portfolios (e.g. 401Ks where there are a limited set of mutual fund choices), these are not counted in the above table when deciding on the appropriate strategy for each client.

## Item 9: Disciplinary Information

MMM, and all Investment Advisor Representatives that work at MMM, have a clean legal and disciplinary record (including no criminal actions, civil actions, administrative proceedings before the SEC or any state regulatory agency, or proceedings before a self-regulatory organization).



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

Raphael Martorello is an Owner and Investment Advisor Representative in both MMM and another Registered Investment Advisor, LotusGroup Advisors, LLC (LGA). LGA was founded in early 2007 when Raphael Martorello no longer wanted to take on additional clients at MMM. LGA has similar goals to MMM, a similar high-touch client service, and an identical investment and trading approach. At LGA, Raphael Martorello is in charge of investment strategy and trading, while his business partner, Andleib Seth, manages client services and sales. LGA and MMM have an identical fee schedule. Conflicts of interest have been mitigated by using the identical investment strategy, and executing orders independently between the two firms.

While MMM has developed a network of professionals to help support client needs (e.g. accountants, lawyers, and insurance businesses), MMM and its advisors never receive any compensation in return for such referrals. In doing so, MMM sources these professionals with a focus on finding the highest value-add, lowest cost providers to service its clients, acting in a client's best interest with a fiduciary responsibility.

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

MMM has a comprehensive, fourteen (14) page Policies, Procedures, and Code of Ethics document that is signed by all employees, and is tracked quarterly by our Chief Compliance Officer. For each of the following topics, MMM's code of ethics spells out the policy, the purpose, and the procedure for daily implementation:

- Material, Non-Public Information and Insider Trading
- Disaster Recovery, Contingency Planning, and Internal Controls
- Privacy Policy
- Valuation of Securities in Client's Accounts
- Portfolio Management & Records Management Processes
- Personal Securities Trading
- Trading – Best Execution
- Proxy Voting
- Code of Ethics

MMM is happy to provide a copy of such document to any client or prospective client upon request.

### Registered Investment Advisor Brochure (Form ADV – Part 2A/2B) - Updated: March 2012

The MMM Investment Team currently consists of Raphael Martorello and Stephen Heller. Both individuals actively make investments / trades in securities on behalf of their personal portfolios, which may be similar to those made on behalf of MMM clients. The Investment Team believes in their approach and, thus, employs those same strategies in their own investments, slotting the majority of their wealth into the appropriate client category and risk profile as described in Item 4 earlier in this document. All rules are followed for client portfolios as well as Mr. Martorello's and Mr. Heller's personal portfolios in order to mitigate potential conflicts of interest, with the vast majority of orders being grouped into block trades along with clients, or done independently during our weekly rebalancing, as all clients are rebalanced independently.

Occasionally, Mr. Martorello takes small personal positions in more risky investments such as individual micro-cap stocks, options, and private investment opportunities (e.g. real estate projects, oil exploration interests, etc.), which tend to be inappropriate for client portfolios or investment objectives. Additionally, Mr. Martorello periodically tests new trading strategies with small amounts of money in his personal accounts, in order to understand the real-life impact of new investment or trading models. These early stage research activities are inappropriate for MMM's clients and are limited to Mr. Martorello's personal account. As new strategies are validated, they may be incorporated into client portfolios if deemed appropriate for helping to achieve their personal investment objectives.

Client trades and interests are always placed ahead of those of Mr. Martorello, and we never commingle a client sell with a personal buy and vice versa. Additionally, a preferred Broker / Custodian is utilized with each client, and this party has the responsibility for effective execution of trades placed. All rules are followed for client portfolios as well as Mr. Martorello's and Mr. Heller's personal portfolios in order to mitigate potential conflicts of interest. Further details of how we mitigate conflicts of interest in personal investing / trading can be found in our comprehensive Policies, Procedures, and Code of Ethics document described earlier in this section (specifically within our policies on Personal Securities Trading, and Trading - Best Execution).

### **Item 12: Brokerage Practices**

MMM suggests that clients use an MMM-preferred Broker-Dealer for maintaining funds under management with MMM. Both retirement and non-retirement accounts are setup and maintained for customers with the Broker-Dealer. MMM strives to maintain a consistent trading, reporting, and investment operation that is facilitated through the usage of a single Broker-Dealer.

The preferred Broker-Dealer was selected using the following criteria:

- Competitive trading commissions costs
- Customer service levels
- Reporting tools, including cost basis and 1099 reports to facilitate tax management strategies
- Personal money management tools
  - Electronic fund transfer capabilities
  - Dividend reinvestment programs
  - Electronic communication delivery capabilities
- Financial stability to insure individual accounts, including primary and back-up account insurance

Generally, in addition to a broker's ability to provide "best execution," we may also consider the value of "research" or additional brokerage products and services a broker-dealer has provided or may be willing to provide. This is known as paying for those services or products with "soft dollars" or credits. Because these products and services could be considered to provide a benefit to the firm, and because the "soft dollars" used to acquire them are generated from clients transactions fees, the firm could be considered to have a conflict of interest in allocating client brokerage business: it could receive valuable benefits by selecting a particular broker or dealer to execute client transactions and the transaction compensation charged by that broker or dealer might not be the lowest compensation the firm might otherwise be able to negotiate. In addition, the firm could have an incentive to cause clients to engage in more securities transactions than would otherwise be optimal in order to generate brokerage compensation with which to acquire products and services.

MMM has chosen TD Ameritrade Institutional as its preferred-broker dealer, and participates in the TD Ameritrade Institutional program. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. ("TD Ameritrade") member FINRA/SIPC/NFA. TD Ameritrade is an independent and unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions.

# Martorello Money Management, Inc.

**REGISTERED INVESTMENT ADVISOR**

**Registered Investment Advisor Brochure (Form ADV – Part 2A/2B) - Updated: March 2012**

There is no direct link between MMM's participation in the program and the investment advice it gives to clients, although MMM receives economic benefits through its participation in the program that are typically not available to TD Ameritrade's retail investors. The benefits include various trading and portfolio management technologies from our preferred brokerage firm (TD Ameritrade Institutional) and their related third-party technology and service provider partners, without cost or at a discount. These technologies and services facilitate the management of client accounts, trading, compliance, investment research, customer relationship management, and tax reporting. Furthermore, some of the products and services made available by TD Ameritrade may solely benefit MMM in managing its overall portfolio of client accounts, and not benefit the client. These technologies and services may not be commercially available for retail clients to use, and are critical for MMM to provide the services contracted for with clients.

Adviser receives some benefits from TD Ameritrade through its participation in the program. These benefits received by MMM from TD Ameritrade do not depend on the amount of brokerage transactions directed to TD Ameritrade. Additionally, MMM endeavors at all times to put the interests of its clients first, in compliance with its fiduciary duties as a Registered Investment Advisor. However, while no financial compensation is provided, the use of these technologies and services qualifies as the receipt of an economic benefit, and clients should be aware that the receipt of these benefits may create a potential conflict of interest in influencing the choice of TD Ameritrade for custody and brokerage services.

MMM also receives from TD Ameritrade certain additional economic benefits ("Additional Services") that may or may not be offered to other independent investment advisors participating in the program. Specifically, the Additional Services include assistance for a portion of MMM's costs associated with 3<sup>rd</sup> party portfolio management and reporting software that TD Ameritrade does not currently provide directly: Interactive Advisory Software, Inc. (IAS). TD Ameritrade provides the Additional Services in its sole discretion and at its own expense, and MMM does not pay any fees to TD Ameritrade for the Additional Services. MMM and TD Ameritrade have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services. MMM has negotiated the Additional Services agreement with TD Ameritrade following a benchmarking study that uncovered some short-comings in TD Ameritrade's technology offering. Rather than building the technology in house at TD Ameritrade, it was deemed more appropriate and beneficial to MMM clients for TD Ameritrade to help defray the cost of this 3<sup>rd</sup> party software.

In providing Additional Services to MMM, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, MMM's client accounts maintained with TD Ameritrade. Consequently, MMM's receipt of Additional Services raises potential conflicts of interest. TD Ameritrade has the right to terminate the Additional Services Addendum with MMM, at its sole discretion, provide certain conditions are met. Consequently, in order to continue to obtain the Additional Services

### Registered Investment Advisor Brochure (Form ADV – Part 2A/2B) - Updated: March 2012

from TD Ameritrade, MMM may have an incentive to recommend to its clients that the assets under management by MMM be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. Notwithstanding the previous sentence, there are no written commitments to recommend clients to TD Ameritrade as a broker-dealer, and the agreement is at-will for MMM. Additionally, this arrangement provides MMM's client's with significant benefits, as the larger collective buying leverage that MMM clients have allows MMM management to negotiate for research, services, and tools that enhance client experiences / results, and would not be available to clients acting individually or on a retail basis. MMM's receipt of Additional Services does not diminish its duty to act in the best interests of its clients, including seeking best execution of trades for client accounts. The Additional Services agreement was negotiated to include no price increase to MMM clients on TD Ameritrade's already competitive transaction fees.

As referenced above, MMM's use of soft dollars with TD Ameritrade is intended to comply with the Securities Exchange Act of 1934. Section 28(e) provides a "safe harbor" for investment managers who use commissions or transaction fees paid by their advised accounts to obtain investment research services that provide lawful and appropriate assistance to the manager in performing investment decision-making responsibilities. As required by Section 28(e), the firm will make a good faith determination that the amount of commission or other fees paid is reasonable in relation to the value of the brokerage and research services provided. That is, before placing orders with a particular broker, we generally determine, considering all the factors described below, that the compensation to be paid to TD Ameritrade is reasonable in relation to the value of all the brokerage and research products and services provided by TD Ameritrade, as compared to its competitors in the marketplace. In making this determination, we typically consider not only the particular transaction, and not only the value of brokerage and research services and products to a particular client, but also the value of those services and products in our performance of our overall responsibilities to all of our clients.

Notwithstanding the above disclosures, MMM acts with a fiduciary responsibility to its clients as a Registered Investment Advisor. MMM participates in the TD Ameritrade program, as described above, with the aim of providing better research decisions, tools, technologies, and services to its clients, oftentimes tools and services that are required to deliver the exceptional value promised and provided to clients, and for which are not available to a retail client on their own. As an example, these products or services assist MMM in managing and administering client accounts not maintained at TD Ameritrade (e.g. 401Ks, 529s, Annuities, etc.) that are often ignored by other investment advisors, to the detriment of full client financial planning. Consequently, these technologies and services are critical for MMM to provide the services contracted for with clients. Furthermore, despite our required disclosures above, we have evaluated industry-wide brokerage services and fees and believe that TD Ameritrade offers an exceptional total value for the commission charged on each transaction relative the services it provides, as compared to its peers. The soft dollar

agreement was also negotiated to include no price increase to MMM clients on TD Ameritrade's already competitive transaction fees. Once again, MMM believes that the client benefits negotiated within the soft-dollar program are a reflection of the leverage gained by MMM clients acting in concert rather than individually.

For 401K, 403B, 457, and 529 accounts under management, MMM client accounts remain with their company- or state-sponsored plan (e.g. Fidelity, Franklin, etc.), but the data is incorporated daily into the overall asset allocation model through our portfolio management tool, and is also included in client's quarterly performance report.

## **Item 13: Review of Accounts**

MMM reviews and adjusts client accounts on a regimented schedule. MMM's largest reviews and adjustments occur quarterly or semi-annually for major asset allocation changes (described in Item 8). Intra-quarter, MMM reviews accounts on a weekly or monthly schedule for rebalancing purposes (see page 8 - Item 8 – Chart I for a description of frequency of reviews by client category grouping). Frequency of reviews is dictated by the products in a client's portfolio as well as the average size of each trade. For example, MMM uses no-transaction-fee mutual funds for smaller clients, since their average trade size is small, and a regular \$9.99 ETF trade would hurt their performance. However, these mutual funds tend to have 30-day holding rules for buying and selling, so MMM cannot review them more often than monthly. Larger clients use low-cost ETFs and can be reviewed more frequently, so MMM reviews them on a weekly basis or even daily if the market is highly turbulent and an opportunity arises to take a quick profit or buy back in at a low-cost.

MMM also tracks client's individual positions daily to evaluate if they are getting overheated or are breaking down. MMM's investment team charts all client positions monthly, and establishes upside (overheating) and downside (breaking down) price targets. MMM then downloads data on a daily basis in order to compare the current price to the price targets. As price targets are realized, the MMM investment team makes decisions on the affected products, and decides whether or not to take action on client's that hold this position.

### **Item 13: Investment Review & Portfolio Adjustment Summary**

- Quarterly/Semi-Annually: Major Asset Allocation Adjustments
- Weekly/Monthly: Rebalancing
- Monthly: Client account review to confirm appropriate client grouping (described in Item 4)
- Daily: Individual Position Monitoring for Upside and Downside Price Targets

### Registered Investment Advisor Brochure (Form ADV – Part 2A/2B) - Updated: March 2012

MMM advisors offer to conduct a minimum of one client review per year, to go over client objectives, results from the previous year and since inception, risk profiles, new considerations for the upcoming year, and any other relevant factors. In addition, clients are encouraged to contact MMM advisors at will, if there are any material items to be discussed prior to the more formal annual review. Many clients have specific requests of MMM to take into account, for which MMM advisors schedule reminders for clients throughout the year (e.g. quarterly gain/loss reports for business owners, savings reminders, etc). Finally, some clients request specific analysis from MMM advisors in order to help them with financial planning, goal-tracking, scenario analysis, college savings, diversification, insurance reviews, private investment opinions, etc. These requests are handled ad-hoc, and oftentimes are then put into a calendar to track on an ongoing basis (e.g. MMM client agrees to sit down bi-annually to reviews savings plan and goal-tracker with MMM advisor). Where possible, MMM advisors are proactive with identifying when a client will have a particular need (e.g. when a client family has a first child, it triggers a request from MMM advisors to discuss financial planning, goal-tracking, college savings, and term life insurance considerations). There is no additional charge for these client reviews and analysis, as they are considered part of providing an exceptional service to the client.

Clients receive the following reports:

- MMM's preferred broker-dealer TD Ameritrade provides monthly account statements, trade confirmations, investor notifications, and year-end tax reports
- MMM provides quarterly performance reports with since inception, quarter-to-date, year-to-date statistics (all reported net of fees)
- MMM provides clients with newsletters every 45 days



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

MMM absolutely 100% restricts the practice of kickbacks or payment from third-parties to MMM for utilization of their investment products or advice with clients. While others may practice this endeavor, we believe it creates an insurmountable conflict of interest in providing advice and service to clients. We have never and will never accept a penny of compensation for using a 3<sup>rd</sup> party investment product with our clients, and are proud to remain 100% independent and aligned with our client's best interest, consistently searching for the best investments at the lowest costs.

MMM thanks current clients for referring a new client by offering a one-time credit of \$200 toward their future quarterly fees. The new client must meet the following criteria:

- (1) Meets our total portfolio minimum of \$250K to become a client
- (2) Remains a client for a minimum of six months

## **Item 15: Custody**

Per the Colorado Division of Securities Rule 51-4.10(IA).A.1, LotusGroup Advisors does not have custody of client accounts. The majority of client accounts are held at TD Ameritrade. Clients receive monthly account statements from TD Ameritrade and should carefully review those statements, and compare those statements to the quarterly performance reports that LotusGroup Advisors sends to clients.

As per an SEC Q&A guidance issued on May 20, 2010 and the Colorado Division of Securities Rule 51-4.10(IA).A.1, LotusGroup Advisors does not have custody of non-TD Ameritrade accounts (e.g. 401Ks, 529s, 403Bs, annuities) because a) fees are not directly deducted from these accounts, b) it has not inadvertently received physical securities, c) there are no employees who serve as trustee to a client, d) we cannot withdraw funds or securities based on advisor's instructions and e) we cannot transfer funds or securities into an unlike named account or unqualified custodian. Similar to accounts at TD Ameritrade, we encourage clients to compare monthly/quarterly statements from the broker-dealers on these accounts to LotusGroup Advisors quarterly reports, ensuring accurate account balance, beneficiary, and address information.



## **Item 16: Investment Discretion**

MMM clients sign a full trading authorization agreement through the preferred broker / dealer. MMM clients also sign a limited power of attorney for 401K, 403B, 457, and 529 accounts that are held at an alternative broker chosen by their plan sponsor. MMM has the discretion to select, buy, sell, and determine the quantities of the individual positions for each client account. MMM is only required to maintain or solicit the consent of customers for trades made on positions that were specifically discussed during the introductory interview (e.g. inherited stock that the client would like to hold onto for sentimental reasons, etc.).

If a client objects to any particular investment decision, he / she may discuss this with MMM and a mutually agreed upon decision will be made and documented if necessary. It is always preferred that the client and MMM engage in a discussion to resolve any potential differences in opinion. However, if client repeatedly acts in a manner inconsistent with the mutually agreed upon investment objectives, MMM reserves the right to cancel the customer agreement after providing written counsel to the customer. Similarly, the customer reserves the right to cancel their contract with MMM at any time if they so desire.

## **Item 17: Voting Client Securities**

MMM does not participate in proxy voting on a regular basis, and where required, chooses to vote along with board decisions of the underlying security. Clients have the option in their new account setup forms with TD Ameritrade to determine whether they would like MMM to vote proxies on their behalf or not.

MMM uses a tactical asset allocation model that trades frequently and typically invests greater than 90% of assets in ETFs or mutual funds (less than 10% in individual securities). As such, it is a very rare occasion when a material item arises on a proxy for which MMM continues to hold the investment position for the client. Consequently, MMM rarely ever votes proxies, instead focusing on asset selection and allocation amounts on an ongoing basis. If MMM strongly disagrees with the management of a certain investment, MMM more often than not sells the position rather than sticking around and voting the proxy. On the rare occasion where MMM is solicited through a phone conversation by a voting proxy company, MMM tends to either abstain, or vote along with the board of directors. Again, MMM decides to sell as the tool of choice if there is disagreement with the fund or management decisions / operations.

If a client requests a track record for proxy voting, MMM is happy to provide him/her with our policy and procedure, and provide them with their record as needed. However (again), MMM has rarely voted proxies and where MMM does, MMM has always voted along with the board. This also eliminates conflicts of interest in our decision making process.

## **Item 18: Financial Information**

The SEC requires advisors to disclose any financial condition that is reasonably likely to impair the advisor from the ability to meet contractual commitments to clients. Since inception in early 2004, MMM has been, and continues to be on, solid financial grounds, and has no current condition that would impair our abilities to meet commitments to clients. MMM is 100% self-funded with no debts or outside funding.

# Martorello Money Management, Inc.

REGISTERED INVESTMENT ADVISOR

Registered Investment Advisor Brochure (Form ADV – Part 2A/2B) - Updated: March 2012

## **Item 19: Requirements for State-Registered Advisors**

Requirement 19A: Identify each of your principal executive officers and management persons, and describe their formal education and business background:

Name: Raphael Martorello (Managing Partner, President, Adviser, Portfolio Manager)

D.O.B: March 8, 1974

Degree: B.S. Mechanical Engineering / Minor in Economics  
University of Virginia, 1997

Business: Partner / Advisor, Martorello Money Management: 2004 – Present  
Partner, LotusGroup Advisors: 2007 – Present

- 8 years of commercial investment experience
- 14 years of total investment experience and system development
- Registered as an Investment Advisor Representative

Director, ICG Commerce: 2000 – 2004

- Practice responsibility for all West Coast clients
- Management oversight for 20 employees
- Business Process Outsourcing

Associate, A.T. Kearney: 1997 – 2000

- Management / Business Consultant

Name: Megan Martorello (Partner, Secretary)

D.O.B: May 24, 1976

Degree: B.S. Systems Engineering / Minor in Economics  
University of Virginia, 1998

Business: Partner / Secretary, Martorello Money Management: 2004 – Present

Manager (Marketing & Finance), Providian Financial: 1999 – 2004

Analyst, B.T. Alex Brown Investment Banking: 1998 – 1999

### Registered Investment Advisor Brochure (Form ADV – Part 2A/2B) - Updated: March 2012

Requirement 19B: Describe any business in which you are actively engaged (other than giving investment advice) and the approximate amount of time spent on that business: **N/A – Not Applicable**

Requirement 19C: In addition to the description of your fees in Item 5 of Part 2A, if you are compensated for advisory services with performance-based fees, explain how these fees will be calculated. Disclose specifically that 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: **N/A – Not Applicable**

Requirement 19D: If you or a management person has been involved in one of the events listed below, disclose all material facts regarding the event:

- An award or otherwise being found liable in an arbitration claim alleging damages in excess of \$2,500: **N/A – Not Applicable**
- An award or otherwise being found liable in a civil, self-regulatory organization, or administrative proceeding: **N/A – Not Applicable**

Requirement 19E: In addition to any relationship or arrangement described in response to Item 10.C of Part 2A, describe any relationship or arrangement that you or any of management persons have with any issuer of securities that is not listed in Item 10.C. of Part 2A: **N/A – Not Applicable**

**Registered Investment Advisor Brochure (Form ADV – Part 2A/2B) - Updated: March 2012**

## **Exhibit A: Material Changes**

The only material changes between our annual updating filing in January 2012 and this updated filing is that we have removed Andy Seth from Part 2A, and removed Megan Martorello, Raphael Martorello, Andy Seth and Shannon Saliba from Part 2B and added Theodore Livingston to part 2B.

# Martorello Money Management, Inc.

**REGISTERED INVESTMENT ADVISOR**

Registered Investment Advisor Brochure (Form ADV – Part 2A/2B) - Updated: March 2012

**Theodore Livingston**

**Martorello Money Management, Inc.**

**1040 S. Gaylord Street #203, Denver CO 80209**

**Work Phone: 720.285.2235**

Form ADV – Part 2B

Updated: March 2012

Required Disclaimer: This brochure supplement provides information about Theodore Livingston that supplements the Martorello Money Management, Inc brochure. Please contact Raphael Martorello if you have any questions about the contents of this supplement.

Additional information about Theodore Livingston is available on the SEC's website: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

# Martorello Money Management, Inc.

**REGISTERED INVESTMENT ADVISOR**

**Registered Investment Advisor Brochure (Form ADV – Part 2A/2B) - Updated: March 2012**

Name: Theodore Livingston (Financial Analyst & Trader)

D.O.B: February 18, 1980

Degree: B.S. Finance  
Montana State University, 2003

Business: Financial Analyst & Trader, LotusGroup Advisors: 2012 – Present

- 4 years of Financial Services experience

Associate, Huron Consulting Group: 2007-2008

- Performed valuations of various intangible assets
- Valued funded and unfunded commercial loan commitments
- Performed solvency analysis to determine the viability of a company's future cash flows

Portfolio Analyst, The Discovery Group: 2005-2007

- Performed extensive fundamental research and analysis of small-cap investment candidates across all industry sector
- Reviewed current portfolio holdings through discussions with company management, quarterly earnings calls, and general market movements

Disciplinary Information: None (100% clean record)

Other Business Activities: Theodore Livingston provides duplicate services to LGA and its sister firm Martorello Money Management, as part of an employee sharing agreement. Services provided are identical in nature and present no conflict of interest.

Additional Compensation: Compensated through LGA as part of an employee sharing agreement, with reimbursements by Martorello Money Management (LGA is a contractor to MMM in this respect).

Supervision: Theodore reports directly to Raphael Martorello, Managing Partner

Requirements for State-Registered Advisers: None (Not Applicable)