

# **Shanley Asset Management, Inc.**

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## **Form ADV, Part 2A Brochure**

April 12, 2012

This brochure provides information about the qualifications and business practices of Shanley Asset Management, Inc. If you have any questions about the contents of this brochure, please contact us at (805) 777-1780 or [krshanley@verizon.net](mailto:krshanley@verizon.net). 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.

Any reference to or use of the terms “registered investment adviser” or “registered,” does not imply that Shanley Asset Management, Inc. or any person associated with Shanley Asset Management, Inc. has achieved a certain level of skill or training.

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

## ITEM 2 - MATERIAL CHANGES

Revised April 12, 2012

The purpose of this page is to inform you of material changes since the last annual update to our brochure. If you are receiving this brochure for the first time this section may not be relevant to you. Shanley Asset Management, Inc. (“Shanley”) reviews and updates our brochure at least annually to make sure that it remains current.

Below is a summary of the material changes from the last annual update to Shanley’s brochure dated February 27, 2012:

Changes in regulation as a result of the Dodd–Frank Wall Street Reform and Consumer Protection Act passed in July 2010 required that Shanley switch our registration from the SEC to applicable state securities regulators. Shanley is licensed as an investment adviser with the State of California, and licensed, registered or notice filed with other states, as required. Therefore, we have made amendments to this brochure and added Item 19 to reflect the requirements of a state-registered adviser.

### ***Item 19 – Requirements for State-Registered Advisers***

Item 19 asks for a range of information about Shanley’s business and executive officers, all of which is already disclosed elsewhere in Shanley’s brochure that was previously provided to clients. The following items are described in this Item:

Our principal executive officers and management persons – These individuals are listed under *Item 4 – Advisory Business*, and their education and business background are described in the brochure supplement, *Form ADV Part 2B*, which Shanley provides to each client initially. Shanley has not made any changes to the disclosures previously provided.

Other Business Activities – As described in ***Item 10 – Other Financial Industry Activities and Affiliations*** – Shanley does not offer any other services or have any affiliations in the financial industry.

Performance-Based Fees – As described in ***Item 6 – Performance-Based Fees and Side-by-Side Management*** – Shanley may receive compensation based on the investment performance we achieve for our clients’ accounts. Performance-based fees may create an incentive for Shanley to recommend an investment that may carry a higher degree of risk to the client. These arrangements are only available to certain types of clients and we calculate the performance-based fees as discussed under **Item 6**.

Legal and Disciplinary Issues – We have no additional information to provide under this Item.

Arrangements with Issuers of Securities - We have no arrangements with issuers of securities.

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## ITEM 4 - ADVISORY BUSINESS

### Description of Advisory Firm

Shanley Asset Management, Inc. (“Shanley,” “we,” “our,” or “us”) is a privately owned corporation headquartered in Westlake Village, CA. Kevin Shanley, President & Chief Executive Officer, founded the company in 2004.

### Advisory Services Offered

Shanley offers the following services to advisory clients:

#### Investment Management Services

Shanley provides continuous and regular investment supervisory services on a discretionary basis. Kevin Shanley works with clients and has the ongoing responsibility to select asset allocations and determine position sizes within each asset class, based upon the objectives of the client.

Shanley will primarily utilize the following investment types when making purchases in client accounts:

1. Equity securities, including stocks and foreign securities listed on US exchanges (ADRs)
2. Fixed income securities, including corporate and government securities
3. Municipal securities

Additionally, Shanley’s investment selections, depending on the individual investment objectives and needs of the client, may include:

1. Securities with equity and debt characteristics, including convertible bonds, preferred stocks or other preferred securities
2. Certificates of deposit (CDs)
3. Mutual funds and exchange traded funds (ETFs)
4. Unit investment trusts (UITs)
5. Real estate investment trusts (REIT)
6. Master limited partnerships (MLPs)
7. Treasury inflation-protected securities (TIPS)
8. Inflation-indexed bonds

Shanley may also occasionally utilize additional types of investments if they are appropriate to address the individual needs, goals, and objectives of the client or in response to client inquiry. Shanley may offer investment advice on any investment held by the client at the start of the advisory relationship. We describe the material investment risks for the primary securities that we utilize under the heading ***Specific Security Risks*** in ***Item 8*** below.

In rare circumstances, we may also provide non-discretionary management of accounts at the client’s request. We discuss our discretionary authority below under ***Item 16 - Investment Discretion***. For more

information about the restrictions clients can put on their accounts, see ***Tailored Services and Client Imposed Restrictions*** in this item below.

We describe the fees charged for investment management services below under ***Item 5 - Fees and Compensation***.

### *Limitations on Investments*

In some circumstances, Shanley's advice may be limited to certain types of securities.

#### *Limitation by Plan Sponsor/Employer*

In the event Shanley is managing assets within a retirement plan such as 401(k), 403(b), ORP or other employer plan, Shanley is limited to recommending those investment providers and investment options chosen by the plan administrator.

#### *Limitation by Client*

Shanley may also limit advice based on certain client-imposed restrictions. For more information about the restrictions clients can put on their accounts, see ***Tailored Services and Client Imposed Restrictions*** in this Item below.

## **Tailored Services and Client Imposed Restrictions**

Shanley manages client accounts based on the investment strategy, as discussed below under ***Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss***. Shanley applies the strategy for each client, based on the client's individual circumstances and financial situation. We make investment decisions for clients based on information the client supplies about their financial situation, goals, and risk tolerance. Our investment selections may not be suitable if the client does not provide us with accurate and complete information. It is the client's responsibility to keep Shanley informed of any changes to their investment objectives or restrictions.

Clients may also request other restrictions on the account, such as when a client needs to keep a minimum level of cash in the account or does not want Shanley to buy or sell certain specific securities or security types in the account. Shanley reserves the right to not accept and/or terminate management of a client's account if we feel that the client-imposed restrictions would limit or prevent us from meeting or maintaining the client's investment strategy.

## **Assets Under Management**

Shanley manages client assets in both discretionary and non-discretionary accounts on a continuous and regular basis. As of 12/31/2011, the total amount of assets under our management was:

Discretionary Assets	\$ 38,669,163
Non-Discretionary Assets	\$ 572,817
Total Assets	\$ 39,241,980

## ITEM 5 - FEES AND COMPENSATION

### Fee Schedule

#### Assets Under Management Fees

Shanley charges advisory fees for investment management services based on a percentage of the client's total assets under management, per the following schedule:

<u>Assets Under Management</u>		<u>Annual Fee</u>
<u>From</u>	<u>To</u>	
\$0	\$500,000	1.50%
\$500,001	\$1,000,000	1.20%
\$1,000,001	\$3,000,000	1.00%
\$3,000,001	\$5,000,000	0.90%
\$5,000,001	\$10,000,000	0.80%
\$10,000,001+		0.70%

Once the portfolio reaches a breakpoint, Shanley bills all assets under management in the portfolio at the lower rate. Some accounts may be under different fee schedules honoring prior agreements. Our standard fee schedule may be negotiable based on a number of factors, which include but are not limited to "grandfathered" accounts, related accounts, and other structures that we may consider in special situations. At our discretion, we may charge lower fees for portfolios with large allocations in fixed income securities. Comparable services may be available from other sources at lower fees.

#### Billing Method

Shanley's advisory fees are payable quarterly in advance at the beginning of each calendar quarter. We charge one fourth of the annual fee each quarter based on the market value of the client's portfolio as of the last day of the prior calendar quarter. The formula used for the calculation is as follows:  $(Annual\ Rate) \times (Total\ Assets\ Under\ Management\ at\ Quarter-End) / 4$ .

For new client accounts, the first payment is a pro-rata calculation due upon execution of the advisory agreement. The calculation will take into consideration the number of days remaining in the quarter and the initial value of the portfolio. The formula used to calculate the initial advisory fee would be as follows:  $(Result\ of\ Quarterly\ Calculation) \times (Days\ Remaining\ in\ Quarter) / (Total\ Number\ of\ Days\ in\ Quarter)$ .

With client authorization, Shanley will automatically withdraw Shanley's advisory fee from the client's account held by an independent custodian. Typically, the custodian withdraws advisory fees from the client's account during the first month of each quarter based on Shanley's instruction. All clients will receive brokerage statements from the custodian no less frequently than quarterly. The custodian statement will show the deduction of the advisory fee.



Shanley will send a statement to each client who authorizes Shanley to instruct the custodian to withdraw fees directly from the account. The statement will show the amount of the fee, the value of the client's assets upon which we based the fee, and the specific manner in which we calculated the fee. It is the client's responsibility to verify the accuracy of the fee calculation. The custodian will not determine whether the fee is properly calculated.

### *Termination*

Either party may terminate the advisory agreement at any time by providing written notice to the other party. The client may terminate the agreement at any time by writing Shanley at our office. Shanley will refund any prepaid, unearned advisory fees based on the effective date of termination, using the following formula:  $(Fees\ Paid) \times (Days\ Remaining\ in\ Quarter) / (Total\ Number\ of\ Days\ in\ Quarter)$ .

### *Assets Under Management and Performance Based Fees*

In some cases, a client may pay a management fee and a performance based fee based on a share of capital gains and appreciation in the client's account as follows:

### *Client Qualifications*

Only clients who meet the qualification requirements under Rule 205-3 of the Investment Advisers Act of 1940 or equivalent state requirements may enter into a performance fee arrangement.

### *Management Fee*

The client pays an advisory fee based on the assets under management based on the schedule described above. However, for performance fee arrangements, the advisory fee rate will not exceed 1.00%.

### *Performance Fees*

The client will pay a performance fee at a maximum rate of 20% of net profits in the client's account. We formalize the advisory and performance fee for each client in the investment management agreement. Our performance fees are negotiable.

### *Valuation of Performance Fee*

The performance fee will be calculated based on the amount of increase, if any, in the market value of a client's account in the preceding calendar quarter, after the deduction of all fees and commissions paid (including fees and commissions charged by the broker/dealer or other custodian of the account, and accounting for all net investment income and gains, whether realized or unrealized).

### *High Water Mark*

The performance fee is subject to a "high water mark" feature. Under the high watermark feature, we will only charge the client a performance fee if the net market value of the account is higher than the highest level reached on any previous billing date.

### *Performance Fee Disclosure*

Clients should understand that:

1. Performance fee arrangements could potentially create an incentive for Shanley to make investments that are more risky or more speculative than might be the case in the absence of a fee based on performance;
2. Shanley may receive increased compensation with regard to unrealized appreciation as well as realized gains on assets in a client's account; and
3. The fees charged by Shanley may be higher or lower than fees charged by other advisers for comparable services.

### *Payment Method*

Shanley will only debit the performance fee portion of a client's fee if the account earns a performance fee. Shanley bases each calculation for profits accrued on the profit calculated from the client's custodial account statement. We evaluate new accounts for the first time at the end of the first calendar quarter.

### *Termination*

Either party may terminate the advisory agreement at any time by providing written notice to the other party. The client may terminate the agreement at any time by writing Shanley at our office. If the client terminates the agreement during the first quarter, the client will pay only the advisory fee and not a performance fee. If the client terminates the agreement after the first quarter, the client will pay the agreed upon percentage of the net profits from the beginning of the previous paid billing period (or from the inception date, if there was no last paid billing period), through the termination date. Any fees previously paid as a result of profits during the period in question will be subtracted from the fees owed on the closing payment.

### *Combination Fees*

Shanley may offer a combination fee where client pays an Assets Under Management Fee on the fixed income portion of the account, and a Performance Fee on the equity portion on the account (we describe each of these structures in the sections above).

## **Other Fees and Expenses**

Shanley's fees do not include custodian fees or margin interest, if any. Clients pay all brokerage commissions, stock transfer fees, and/or other similar charges incurred in connection with transactions in accounts, from the assets in the account. These charges are in addition to the fees client pays to Shanley. See ***Item 12 - Brokerage Practices*** below for more information.

In addition, any mutual fund shares held in a client's account may be subject to deferred sales charges, 12b-1 fees, early redemption fees, and other fund-related expenses. The fund's prospectus fully describes the fees and expenses. All fees paid to Shanley for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds. Mutual funds pay advisory fees to their managers, which are indirectly charged to all holders of the mutual fund shares.

## ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Shanley typically charges asset-based fees, but may also offer clients the option of paying an asset-based and performance-based fee as an alternative. We will only consider performance-fee arrangements for clients that meet certain internal and regulatory qualifications. Performance fees will only be charged in accordance with the provisions of California Code of Regulations (CCR) Section 260.234. We describe our performance-based fee arrangement in detail under **Item 5 – Fees and Compensation** above.

Managing accounts under different fee arrangements could potentially create a conflict of interest. Performance-based fee arrangements could potentially create a conflict of interest for the portfolio manager, giving incentive to:

1. allocate investment opportunities that he or she believes might be the most profitable to performance-based fee accounts; and/or
2. make investments with more risk or that are more speculative than those that might be recommended under a different fee arrangement.

Shanley has adopted policies and procedures reasonably designed to address these types of conflicts. Specifically, the policies and procedures are designed to allocate investment opportunities between accounts on a fair and equitable basis over time and prevent non-suitable investments in client accounts.

## ITEM 7 - TYPES OF CLIENTS

Shanley offers discretionary investment advisory services to individuals, high net worth individuals, and trusts and estates. In addition, we offer advisory services to pension and profit sharing plans and businesses.

### Account Requirements

Generally, Shanley requires clients to maintain a minimum account size of \$1,000,000. We may combine family accounts to meet the account size minimum. Shanley may reduce or waive the account minimum requirements at our discretion.

## ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### Methods of Analysis and Investment Strategies

#### General Investment Strategies

Shanley generally uses diversification in an effort to optimize the risk and potential return of a portfolio. More specifically, we utilize multiple asset classes, investment styles, market capitalizations, sectors, and regions to provide diversification. Each portfolio composition is determined in accordance with the clients' investment objectives, risk tolerance, and time horizon.

Shanley selects categories of investments based on the clients' attitudes about risk and their need for capital appreciation or income. Different instruments involve different levels of exposure to risk. Within each investment category, Shanley selects individual securities with characteristics that are most consistent with the client's objectives. We deal with any client restrictions on an account-by-account basis. Since Shanley treats each client account uniquely, client portfolios with a similar investment objectives and asset allocation goals may own different securities. Clients who buy or sell exchange-listed securities on the same day may receive different prices.

### *Methods of Analysis for Selecting Securities*

Shanley may use fundamental, cyclical, charting, and/or technical analysis in the selection of individual equity securities. Additionally, Shanley may use specific strategies or resources in the method of analysis and selection of fixed income securities.

#### *Fundamental Analysis*

Fundamental analysis typically involves analysis of corporate financial statements, management presentations, specialized research publications, and general news sources.

#### *Cyclical Analysis*

Cyclical analysis involves the analysis of business cycles to find favorable conditions for buying and/or selling a security.

#### *Charting Analysis*

Charting analysis involves the use of patterns in performance charts. Shanley uses this charting technique to search for patterns in an effort to predict favorable conditions for buying and/or selling a security.

#### *Technical Analysis*

The effectiveness of technical analysis depends upon the accurate forecasting of major price moves or trends in the securities traded by Shanley. However, there is no assurance of accurate forecasts or that trends will develop in the markets we follow. In the past, there have been periods without discernible trends and similar periods will presumably occur in the future. Even where major trends develop, outside factors like government intervention could potentially shorten them.

Furthermore, one limitation of technical analysis is that it requires price movement data, which can translate into price trends sufficient to dictate a market entry or exit decision. In a trendless or erratic market, a technical method may fail to identify trends requiring action. In addition, technical methods may overreact to minor price movements, establishing positions contrary to overall price trends, which may result in losses. Finally, a technical trading method may under perform other trading methods when fundamental factors dominate price moves within a given market.

The calculations that underlie Shanley's system, methods, and strategies involve many variables, including determinants from information generated by computers and/or charts. The use of a computer

in collating information or in developing and operating a trading method does not assure the success of the method because a computer is merely an aid in compiling and organizing trade information. Accordingly, no assurance is given that the decisions based on computer-generated information will produce profits for a client's account.

### *Debt Securities (Fixed Income)*

Shanley relies on credit rating agencies such as Standard & Poor's and Moody's to help determine the financial strength of issuing creditors. We also use prospectuses and other relevant information from bond underwriters to help in analysis and selection of fixed income securities.

Regarding fixed income investments, Shanley considers the financial strength of the issuer, call provisions, liquidity factors, and bond insurance in selecting bonds for purchase. Shanley solicits bids from several underwriters (i.e. brokerages) in an effort to obtain the most attractive yield on purchase.

### *Specific Investment Strategies for Managing Portfolios*

Shanley may use cash as a strategic asset, long-term holding, short-selling, trend, defensive, and/or inverse/enhanced market strategies in the construction and management of client portfolios.

### *Cash as a Strategic Asset*

Shanley may use cash as a strategic asset and may at times move or keep client's assets in cash or cash equivalents. While high cash levels can help protect a client's assets during periods of market decline, there is a risk that our timing in moving to cash is bad upon either exit or reentry into the market and we miss positive market moves.

### *Long-term Holding*

Shanley's strategy consists of purchasing, holding, and rebalancing a diversified portfolio of securities. Shanley typically intends to hold these investments for the long term except when sales are necessary to rebalance the portfolio or to fund replacement acquisitions. When selecting publicly traded equities, Shanley may focus on the potential for income and/or growth, depending on the client's investment objectives. Shanley does not attempt to time short-term market swings. Short term buying and selling of securities is typically limited to those cases where a purchase has resulted in an unanticipated gain or loss in which we believe that a subsequent sale is in the best interest of the client.

### *Short-Selling*

Shanley's investment strategies do not generally include selling securities short. However, we may implement short sales for clients who make that request. Clients should be aware that short-selling includes the risk of theoretically unlimited loss if the security sold short rises in value as opposed to falling in value and if the short sale is not covered by a similar security.

### *Trend*

Shanley manages client assets using a trend following methodology based on the 200-day average and grounded in a strong sell discipline for all positions within the portfolio.

### *Defensive Strategies*

Shanley may invest in any equity or debt security in the exercise of our discretion. Shanley has full discretion in how we allocate client accounts among security types. We do not rebalance accounts to any specific target allocation. Actual allocation will vary over time in accounts. At any time, client accounts may hold significant levels of cash and/or cash equivalents. Account allocations are likely to vary significantly compared to the overall equity markets as well as compared to any particular benchmark.

### *Inverse/Enhanced Market*

Shanley may also use leveraged long and short mutual funds and/or exchange traded funds that are designed to perform in either an:

1. Inverse relationship to certain market indices (at a rate of one or more times the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk; or
2. Enhanced relationship to certain market indices (at a rate of one or more times the actual result of the corresponding index) as an investment strategy and/or in an effort to increase gains in an advancing market.

## **Investing Involves Risk**

Prior to entering into an agreement with Shanley, the client should carefully consider:

1. That investing in securities involves risk of loss which clients should be prepared to bear;
2. That securities markets experience varying degrees of volatility;
3. That over time the client's assets may fluctuate and at any time be worth more or less than the amount invested; and
4. That clients should only commit assets that they feel are available for investment on a long-term basis.

## **Specific Security Risks**

### General Risks of Owning Securities

The prices of securities held in client accounts and the income they generate may decline in response to certain events taking place around the world. These include events directly involving the issuers of securities in a client's account, conditions affecting the general economy, and overall market changes. Other contributing factors include local, regional, or global political, social, or economic instability and governmental or governmental agency responses to economic conditions. Finally, currency, interest rate, and commodity price fluctuations may also affect security prices and income.

### Equity Securities

Equity securities represent an ownership position in a company. Equity securities typically consist of common stocks. The prices of equity securities fluctuate based on, among other things, events specific

to their issuers and market, economic and other conditions. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices.

There may be little trading in the secondary market for particular equity securities, which may adversely affect the ability to dispose of those equity securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of equity securities.

### *Small Capitalization Equity Securities*

Investing in smaller companies may pose additional risks as it is often more difficult to dispose of small company stocks, more difficult to obtain information about smaller companies, and the prices of their stocks may be more volatile than stocks of larger, more established companies. Clients should have a long-term perspective and, for example, be able to tolerate potentially sharp declines in value.

### *Debt Securities (Bonds)*

Issuers use debt securities to borrow money. Generally, issuers pay investors periodic interest and repay the amount borrowed either periodically during the life of the security and/or at maturity. Alternatively, investors can purchase other debt securities, such as zero coupon bonds, which do not pay current interest, but rather are priced at a discount from their face values and their values accrete over time to face value at maturity. The market prices of debt securities fluctuate depending on such factors as interest rates, credit quality, and maturity. In general, market prices of debt securities decline when interest rates rise and increase when interest rates fall. The longer the time to a bond's maturity, the greater its interest rate risk.

Certain additional risk factors relating to debt securities include:

#### Reinvestment Risk

When interest rates are declining, investors have to reinvest their interest income and any return of principal, whether scheduled or unscheduled, at lower prevailing rates.

#### Inflation Risk

Inflation causes tomorrow's dollar to be worth less than today's; in other words, it reduces the purchasing power of a bond investor's future interest payments and principal, collectively known as "cash flows." Inflation also leads to higher interest rates, which in turn leads to lower bond prices.

#### Interest Rate and Market Risk

Debt securities may be sensitive to economic changes, political and corporate developments, and interest rate changes. Investors can also expect periods of economic change and uncertainty, which can result in increased volatility of market prices and yields of certain debt securities. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices.

### Call Risk

Debt securities may contain redemption or call provisions entitling their issuers to redeem them at a specified price on a date prior to maturity. If an issuer exercises these provisions in a lower interest rate market, the account would have to replace the security with a lower yielding security, resulting in decreased income to investors.

Usually, a bond is called at or close to par value. This subjects investors that paid a premium for their bond to a risk of lost principal. In reality, prices of callable bonds are unlikely to move much above the call price if lower interest rates make the bond likely to be called.

### Credit Risk

If the issuer of a debt security defaults on its obligations to pay interest or principal or is the subject of bankruptcy proceedings, the account may incur losses or expenses in seeking recovery of amounts owed to it.

### Liquidity and Valuation Risk

There may be little trading in the secondary market for particular debt securities, which may affect adversely the account's ability to value accurately or dispose of such debt securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of debt securities.

It may be possible to reduce the risks described above through diversification of the client's portfolio and by credit analysis of each issuer, as well as by monitoring broad economic trends and corporate and legislative developments, but there can be no assurance that we will be successful in doing so. Credit ratings for debt securities provided by rating agencies reflect an evaluation of the safety of principal and interest payments, not market value risk. The rating of an issuer is a rating agency's view of past and future potential developments related to the issuer and may not necessarily reflect actual outcomes. There can be a lag between the time of developments relating to an issuer and the time a rating is assigned and updated.

Bond rating agencies may assign modifiers (such as +/-) to ratings categories to signify the relative position of a credit within the rating category. Unless we state otherwise, clients should include any security within that category without considering the modifier when reading their investment policies based on ratings categories.

### Municipal Bonds

Municipal bonds are debt obligations generally issued to obtain funds for various public purposes, including the construction of public facilities. Municipal bonds pay a lower rate of return than most other types of bonds. However, because of a municipal bond's tax-favored status, investors should compare the relative after-tax return to the after-tax return of other bonds, depending on the investor's tax bracket. Investing in municipal bonds carries the same general risks as investing in bonds in general. Those risks include interest rate risk, reinvestment risk, inflation risk, market risk, call or redemption



risk, credit risk, and liquidity and valuation risk. Investing in municipal bonds carries risk unique to these types of bonds, which may include:

#### Legislative Risk

Legislative risk includes the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income.

#### Tax-Bracket Changes

Municipal bonds generate tax-free income, and therefore pay lower interest rates than taxable bonds. Investors who anticipate a significant drop in their marginal income-tax rate may benefit from the higher yield available from taxable bonds.

#### Liquidity Risk

The risk that investors may have difficulty finding a buyer when they want to sell and may be forced to sell at a significant discount to market value. Liquidity risk is greater for thinly traded securities such as lower-rated bonds, bonds that were part of a small issue, bonds that have recently had their credit rating downgraded or bonds sold by an infrequent issuer. Municipal bonds may be less liquid than other bonds.

#### Credit Risk

Credit risk includes the risk that a borrower will be unable to make interest or principal payments when they are due and therefore default. To reduce investor concern, insurance policies that guarantee repayment in the event of default back many municipal bonds.

#### AMT

Shanley invests in a variety of fixed income securities for clients. For those accounts seeking preservation of capital and current income exempt from taxation, where possible, we do not invest in municipal bonds subject to the Alternative Minimum Tax ("AMT").

#### General Obligation vs. Revenue Bonds

Typically, investors consider General Obligation bonds to be safer than Revenue bonds since the full faith and credit of the issuer backs the interest and principal payments. With revenue bonds, the interest and principal are dependent upon the revenues paid by users of the facility or service. Frequently the issuers of revenue bonds are either private sector corporations (e.g. hospitals) or entities that exist, often in local monopoly form, to provide a public service (e.g. power utilities or public transportation authorities). Consequently, the thought is that the consumer spending that provides the funding or income stream for revenue bond issuers may be more vulnerable to changes in consumer tastes or a general economic downturn compared to a state or city's ability to raise taxes to pay for its General Obligation commitments.

#### *Municipal Bonds of a Particular State*

Municipal bonds are debt obligations generally issued to obtain funds for various public purposes, including the construction of public facilities. Securities issued by California municipalities are more susceptible to factors adversely affecting issuers of California securities. For example, in the past,

California voters have passed amendments to the state's constitution and other measures that limit the taxing and spending authority of California governmental entities, and future voter initiatives may adversely affect California municipal bonds.

## **ITEM 9 - DISCIPLINARY INFORMATION**

Shanley and our personnel seek to maintain the highest level of business professionalism, integrity, and ethics. Shanley does not have any disciplinary information to disclose.

## **ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Shanley does not offer any other services or have any affiliates in the financial industry.

## **ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

Shanley believes that we owe clients the highest level of trust and fair dealing. As part of our fiduciary duty, we place the interests of our clients ahead of the interests of the firm and our personnel. Shanley's personnel are required to conduct themselves with integrity at all times and follow the principles and policies detailed in our Code of Ethics.

Shanley's Code of Ethics attempts to address specific conflicts of interest that either we have identified or that could likely arise. Shanley's personnel are required to follow clear guidelines from the Code of Ethics in areas such as gifts and entertainment, other business activities, prohibitions of insider trading, and adherence to applicable state and federal securities laws. Additionally, individuals who make investment decisions to clients, or who have access to nonpublic information regarding any clients' purchase or sale of securities are subject to personal trading policies governed by the Code of Ethics (see below).

Shanley will provide a complete copy of the Code of Ethics to any client or prospective client upon request.

### **Personal Trading Practices**

Shanley or our personnel may place trades for our own accounts. The securities we trade in may be the same securities we recommend to clients, or they may be different securities that we do not feel are appropriate for clients. A conflict of interest could arise when Shanley or our personnel trade in the same securities as clients. For example, we could have an incentive to purchase a security in our own account before recommending the security to a client, hoping that when the client traded, the price of the security would go up and we would benefit.

Due to the small size of trades placed for clients compared with the large volume traded in those securities each day, we do not believe that client trades could realistically move the price of a security

and enable us to benefit from client trades. We place trades for our own accounts independently of decisions to trade for clients. Because the price of securities fluctuates during the day (other than mutual funds), we could trade in a security on the same day as a client and receive a better or worse price than the client does. As a fiduciary to our clients, we always seek to put our clients' interests first. Any difference in the prices we receive is never the result of our intentionally trading ahead of clients. Shanley prohibits trading in a manner that takes personal advantage of our recommendations to clients.

## ITEM 12 - BROKERAGE PRACTICES

### The Custodian and Brokers We Use

Clients must maintain assets in an account at a "qualified custodian," generally a broker-dealer or bank. We request that our clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, as the qualified custodian. We are independently owned and operated, and unaffiliated with Schwab. Schwab will hold client assets in a brokerage account, and buy and sell securities when we instruct them to. While we request that clients use Schwab as custodian/broker, client must decide whether to do so and open accounts with Schwab by entering into account agreements directly with them. We do not open accounts for clients, although we may assist them in doing so. Not all advisors request their clients to use a particular broker-dealer or other custodian selected by the advisor.

#### *How We Select Brokers/Custodians*

We seek to recommend a custodian/broker who will hold client assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:

1. Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
2. Capability to execute, clear, and settle trades (buy and sell securities for client accounts)
3. Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
4. Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
5. Availability of investment research and tools that assist us in making investment decisions
6. Quality of services
7. Competitiveness of the price of those services (commission rates, other fees, etc.) and willingness to negotiate the prices
8. Reputation, financial strength, and stability
9. Prior service to Shanley and our other clients
10. Availability of other products and services that benefit us, as discussed below (see ***Products and Services Available to Us From Schwab***)

### *Client Brokerage and Custody Costs*

For our clients' accounts that Schwab maintains, Schwab generally does not charge separately for custody services. However, Schwab receives compensation by charging commissions or other fees on trades that it executes or that settle into clients' Schwab accounts. We have determined that having Schwab execute trades is consistent with our duty to seek "best execution" of client trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see ***How We Select Brokers/Custodians***).

### *Products and Services Available to Us from Schwab*

Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab's business serving independent investment advisory firms like us. They provide Shanley and our clients with access to their institutional brokerage, trading, custody, reporting, and related services, many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts; others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (we do not have to request them) and at no charge to us.

The following is a more detailed description of Schwab's support services:

#### Services That Benefit Our Clients

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit our clients and their accounts.

#### Services That May Not Directly Benefit Our Clients

Schwab also makes available to us other products and services that benefit us but may not directly benefit our clients or their accounts. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

1. Provide access to client account data (such as duplicate trade confirmations and account statements)
2. Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
3. Provide pricing and other market data
4. Facilitate payment of our fees from our clients' accounts
5. Assist with back-office functions, recordkeeping, and client reporting

### Services That Generally Benefit Only Us

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

1. Educational conferences and events
2. Consulting on technology, compliance, legal, and business needs
3. Publications and conferences on practice management and business succession
4. Access to employee benefits providers, human capital consultants, and insurance providers

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional business entertainment of our personnel.

### Our Interest in Schwab's Services

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. These services are not contingent upon us committing any specific amount of business to Schwab in trading commissions. We believe that our selection of Schwab as custodian and broker is in the best interests of our clients. Shanley primarily supports our selection of Schwab by the scope, quality, and price of Schwab's services (see ***How We Select Brokers/Custodians***, above) and not Schwab's services that benefit only us.

### Directed Brokerage

Shanley will not allow clients to direct Shanley to use a specific broker-dealer to execute transactions. Clients must use the broker-dealer/custodian that they selected to custody their account(s) to execute transactions. Not all investment advisers require their clients to trade through specific brokerage firms. By requiring clients to use Schwab, Shanley believes we may be able to more effectively manage the client's portfolio, achieve favorable execution of client transactions, and overall lower the costs to the portfolio.

Clients with 401K or other employer-plan accounts are not required to use Schwab.

### **Aggregation and Allocation of Transactions**

In some cases, Shanley will recommend the purchase or sale of the same security for multiple clients at the same time. In those cases, Shanley may combine purchase and sale orders for all clients with the same order. Shanley will generally allocate the proceeds arising out of those transactions on an average price basis among the various participants in the transactions. Shanley believes that by combining orders in this way it will be advantageous to all participants. However, the average price could be less advantageous to a particular client than if that client had been the only account effecting the transaction or had completed its transaction before the other participants.

Based on our management process and the securities we recommend, there may be times where we cannot aggregate client trades or where the trading opportunity for a particular security is limited. In these circumstances, Shanley attempts in good faith to allocate trades and investment opportunities among clients in a manner that, over time, is equitable to all our clients.

## **ITEM 13 - REVIEW OF ACCOUNTS**

### **Managed Account Reviews**

We manage portfolios on a continuous basis and generally review all positions in client accounts at least quarterly. Kevin Shanley, President, conducts all reviews based on a variety of factors. These factors may include but are not limited to stated investment objectives, economic environment, outlook for the securities markets, and the merits of the securities in the accounts.

In addition, we may conduct a special review of an account based on one or more of the following:

1. A change in the client's investment objectives, guidelines and/or financial situation;
2. Market conditions;
3. Tax considerations;
4. Material cash deposits or withdrawals; or
5. Other significant events.

### **Account Reporting**

Each client receives a written statement from the custodian that includes an accounting of all holdings and transactions in the account for the reporting period. Shanley does not provide additional reporting on the accounts we manage.

## **ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION**

### **Schwab Support Products and Services**

We receive an economic benefit from Schwab in the form of the support products and services they make available to us and other independent investment advisors whose clients maintain their accounts at Schwab. These products and services, how they benefit us, and the related conflicts of interest are described above (see **Item 12 – Brokerage Practices**). We do not base particular investment advice, such as buying particular securities for our clients, on the availability of Schwab's products and services to us.

## **ITEM 15 - CUSTODY**

Shanley does not take physical custody of client funds or securities. For the convenience of the client, we will set up quarterly fee deduction ability from the client's account, when authorized by the client. Shanley will not have custody of our clients' funds or securities when the clients authorize us to deduct our management fees directly from the client's account if all of the following requirements are met:

1. Clients' accounts are held by a qualified custodian (generally a broker-dealer, bank, trust company, or other financial institution).
2. Clients will receive statements directly from their qualified custodian at least quarterly. The statements will reflect the client's funds and securities held with the qualified custodian as well as any transactions that occurred in the account, including the deduction of Shanley's fee.
3. Each billing period, we send clients a statement showing the value of the client's assets upon which we based the fee, the amount of the fee, and how we calculated the fee.
4. We send the amount of our fee to the custodian.
5. It is the client's responsibility to verify the accuracy of the fee calculation. The custodian will not determine whether the fee is properly calculated.

## ITEM 16 - INVESTMENT DISCRETION

Shanley has full discretion to decide the specific security to trade, the quantity, and the timing of transactions for client accounts. Shanley will not contact clients before placing trades in their account, but clients will receive confirmations directly from the broker for any trades placed. Clients grant us discretionary authority in the contracts they sign with us. Clients also give us trading authority within their accounts when they sign the custodian paperwork.

Certain client-imposed conditions may limit our discretionary authority, such as where the client prohibits transactions in specific security types. See also ***Tailored Services and Client Imposed Restrictions*** under ***Item 4***, above.

## ITEM 17 - VOTING CLIENT SECURITIES

### Proxy Voting

Shanley generally votes client securities (proxies) on behalf of our clients. When Shanley accepts such responsibility, we will only cast proxy votes in a manner consistent with the best interest of our clients. Absent special circumstances, which we fully describe in our Proxy Voting Policies and Procedures, we will vote all proxies within the guidelines we established and describe in our Proxy Voting Policies and Procedures, as we may amend from time-to-time. At any time, clients may contact us to request information about how we voted your proxies for your securities or to get a copy of our Proxy Voting Policies and Procedures.

We will review the proxy material and any other material we deem relevant to making an informed decision and will vote each proxy in a manner that in our opinion will lead to the greatest long-term net positive impact on shareholder value. We may not vote all proxies if there is a good reason not to (e.g., the firm would have to hire a translator or make extensive travel to vote foreign proxies and the cost would outweigh the benefits).

It is feasible that from time to time a potential conflict of interest may arise in the voting of proxies. We attempt to identify potential conflicts of interest prior to the voting of any proxies. In the event of a potential conflict of interest, we will send to the affected client(s) a detailed explanation of the conflict and will ask the client for consent before voting. Along with the explanation of the conflict, we will provide a copy of the proxy material, any material created in reaching a decision, and an explanation of how he arrived at the recommendation for voting the proxy.

### Class Actions

In some cases, in addition to the owner/beneficiary, Shanley may also receive notification of a class action filing. When this happens, we will typically fill in the proof of claim form, gather the transaction information pertaining to the client's account, and send the form and the documentation to the client for filing. Because each class action involves certain legal rights that must be considered by the owner/beneficiary of the security before becoming a member of the class, we cannot instruct, or give advice to our clients on whether or not to participate as a member of the class.

## **ITEM 18 - FINANCIAL INFORMATION**

Registered investment advisers are required in this item to provide clients with certain financial information or disclosures about the firm's financial condition. Shanley does not require the prepayment of more than \$500 in fees per client, six months or more in advance, and does not foresee any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.

## **ITEM 19 - REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

We have disclosed material conflicts of interest required under Section 260.238(k) of the California Corporate Securities Law of 1968 regarding Shanley, our representatives, or our employees, which we expect could reasonably impair the rendering of unbiased and objective advice.

### **Principal Executive Officers and Management Persons**

We list the principal executive officers and management persons of Shanley under **Item 4 - Advisory Business**, above. A description of their education and business background is included in the brochure supplement, Form ADV Part 2B, which we provide to clients initially. Clients can also get a copy of the brochure supplement for Shanley's officers at any time by contacting us at the address or phone number on the cover page of this brochure.

### **Other Business Activities**

Shanley's sole business is providing investment advice.

### **Performance-Based Fees**

Shanley may receive compensation based on the investment performance we achieve for our clients' accounts. Performance-based fees may create an incentive for Shanley to recommend an investment that may carry a higher degree of risk to the client. These arrangements are only available to certain



types of clients and we calculate the performance-based fees as discussed under **Item 6 - Performance-Based Fees and Side-by-Side Management** and **Item – Fees and Compensation**, above.

## **Legal and Disciplinary Issues**

Shanley and our personnel seek to maintain the highest level of business professionalism, integrity, and ethics. Neither Shanley nor our management persons have any legal or disciplinary events to disclose.

## **Arrangements with Securities Issuers**

Shanley and our personnel have no relationships or arrangements with issuers of securities.

# Form ADV, Part 2B Brochure Supplement

## Kevin Shanley

Shanley Asset Management, Inc.

340 N. Westlake Blvd.

Suite 230

Westlake Village, CA 91362

(805) 777-1780

April 12, 2012

This brochure supplement provides information about Kevin Shanley that supplements the Shanley Asset Management, Inc. brochure. You should have already received a copy of that brochure. Please contact Kevin Shanley if you did not receive our brochure or if you have any questions about the contents of this supplement.

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

## **ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE**

**Kevin Shanley**, President, b. 1949

### *Education:*

B.A., Economics, University of Bridgeport, Connecticut, 1972

### *Business Background:*

Shanley Asset Management, Inc., Chief Executive Officer, President & Chief Compliance Officer, 07/2004 to present

## **ITEM 3 - DISCIPLINARY INFORMATION**

Kevin Shanley has no disciplinary history to disclose.

## **ITEM 4 - OTHER BUSINESS ACTIVITIES**

Kevin Shanley's only business is providing investment advice through Shanley.

## **ITEM 5 - ADDITIONAL COMPENSATION**

Kevin Shanley's only compensation comes from his regular salary and ownership of Shanley.

## **ITEM 6 - SUPERVISION**

Kevin Shanley is Shanley's only employee and not supervised by any other individual.

## **ITEM 7 - REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Kevin Shanley has no additional disclosures.

## **Client Privacy Notice**

Keeping customer information secure is priority for all of us at Shanley Asset Management. We are providing this privacy notice to individual clients who receive services from us for personal, family, or household purposes (“you”). We hope this helps you understand how we handle the personal information about you that we collect and may disclose.

### **Personal Information We Collect**

We collect personal information about you from the following sources:

- Information we receive from you on applications or other forms; and
- Information about your transactions with us or others.

### **Personal Information We May Disclose**

We may disclose personal information about our customers or former customers to nonaffiliated third parties, such as custodians, as permitted by law. We may also disclose personal information about you to your Certified Public Accountant (CPA) or Attorney, but only upon your written authorization.

### **Protection of Personal Information**

We restrict access to your personal and account information to those employees who need to know that information to provide products or services to you. We maintain physical, electronic, and procedural safeguards to guard your personal information.