



## FORM ADV PART 2A\* SEC-Required Brochure

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\*This brochure provides information about the qualifications and business practices of Wealth Architects, LLC. If you have any questions about the contents of this brochure, please contact us at telephone 650.325.9044. The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission or by any state authority. Additional information about Wealth Architects, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **MATERIAL CHANGES FROM PRIOR FORM ADV PARTS 2A AND 2B**

This updated Form ADV Part 2A contains the following changes from the prior versions:

- Routine revisions and updates to formatting.
- Non-material edits to the description of prior disclosures.
- Inclusion of an Index of ERISA Disclosures

## TABLE OF CONTENTS

MATERIAL CHANGES FROM PRIOR FORM ADV PARTS 2A AND 2B .....	2
TABLE OF CONTENTS .....	3
INDEX OF ERISA REQUIRED DISCLOSURES .....	4
1. ADVISORY BUSINESS .....	5
2. FEES AND COMPENSATION .....	7
3. PERFORMANCE-BASED FEES .....	10
4. TYPES OF CLIENTS .....	10
5. METHODS OF ANALYSIS, INVESTMENT STRATEGIES, RISK OF LOSS .....	10
6. DISCIPLINARY INFORMATION .....	12
7. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....	12
8. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....	12
9. BROKERAGE PRACTICES .....	13
10. REVIEW OF ACCOUNTS .....	18
11. CLIENT REFERRALS AND OTHER COMPENSATION .....	18
12. CUSTODY OF CLIENT ASSETS .....	19
13. INVESTMENT DISCRETION .....	19
14. VOTING CLIENT SECURITIES .....	20
15. STATEMENT OF FINANCIAL CONDITION .....	20

## INDEX OF ERISA REQUIRED DISCLOSURES

Wealth Architects (sometimes the “Firm” or “Advisor”) may provide investment management services to retirement plans governed by the Employee Retirement Investment Security Act (“ERISA”). ERISA regulations require that specific disclosures be made to the ERISA plan fiduciary that is authorized to enter into, or extend or renew, an agreement with the Firm to provide these services. The following Index identifies the disclosures required and the location where plan representatives may find them. It is intended to assist ERISA Plan representatives with compliance with the service provider disclosure regulations under section 408(b)(2) of ERISA. Any questions concerning this guide or the information provided regarding our services or compensation should be addressed to our Chief Compliance Officer at the number noted on the cover page of this ADV Part 2A.

Required Disclosure	Location of the Required Disclosure
Description of the services that our Firm will provide to covered ERISA plans	Item 1 of this Form ADV Part 2A and Paragraphs 1-3 of the wealth management agreement signed with our Firm.
Statement of fiduciary responsibility	Item 1 of this Form ADV Part 2A and Paragraph 20 of the wealth management agreement signed with our Firm.
Description of the direct compensation to be paid to our firm	Item 2 of this Form ADV Part 2A and Paragraph 4 of the wealth management agreement signed with our Firm.
Description of the indirect compensation we might receive from third parties in connection with providing you services, if any	Items 9, 11 and 12 of this Form ADV Part 2A
Description of the compensation to be shared between us and any third party or any affiliated entity, if any	Item 11 of this Form ADV Part 2A.
Compensation our firm will receive upon termination of this agreement, if any	Item 1 of this Form ADV Part 2A.

## **1. ADVISORY BUSINESS**

Registration Status -	Registered with the SEC in 2005 <sup>1</sup>
Principal Owner -	Mark T. Johnsen

### **ADVISORY SERVICES**

Wealth Architects is a California limited liability company and independent registered investment advisor. Our Firm provides comprehensive wealth management, financial planning and financial consulting services. Our broad range of financial planning and consulting services may include non-investment related matters.

For our wealth management clients, the Firm's portfolio managers consult with each client to design an individualized investment plan based on a number of factors including the client's financial condition, investment goals and objectives, risk tolerances, asset class preferences, time horizons, liquidity needs and other factors. Our portfolio managers help each of the Firm's clients identify a strategic asset allocation that is consistent with the client's investment objectives and other criteria.

Wealth management clients enter into a management relationship with the Firm by executing a wealth management agreement and by establishing a custodial investment account with a qualified custodian, usually a broker-dealer. A client may make additions to and withdrawals from the client's custodial account at any time. Clients may withdraw account assets with notice to the Firm, subject to the usual and customary securities settlement procedures. However, we design client portfolios as long-term investments and caution our clients that asset withdrawals may impair the achievement of the client's investment objectives.

Additions to an account may be in cash or securities provided that our portfolio managers may decline to accept particular securities into a client's account or may recommend that the security be liquidated if it is inconsistent with the Firm's investment strategy or the client's investment objectives. Clients are advised that when transferred securities are liquidated, they may be subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

### **Fiduciary Status Under ERISA**

To the extent any client is a retirement plan or other employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and depending upon the investment management services provided by Wealth Architects, the Firm may be considered a "fiduciary" under ERISA.

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<sup>1</sup> "Registration" means only that the Firm meets the minimum requirements for registration as an investment advisor and does not imply that the SEC guarantees the quality of our services or recommends them.

## **FINANCIAL PLANNING AND FINANCIAL CONSULTING SERVICES**

Wealth Architects provides comprehensive financial planning services on either an hourly fee or fixed fee basis. Wealth Architects' financial planning services may include a financial review and analysis of some or all of the following areas:

- Determining Financial Goals And Objectives
- Asset Allocation Review
- Retirement Plan Analysis
- Employee Stock Option Analysis
- Current Portfolio Review
- Education Funding Analysis
- Cost Audit of Current Investments
- Cash Flow Management Review
- Review of Insurance Needs
- Mortgage and Refinance Evaluation
- Estate Plan Review or Development
- Charitable (or social capital) Planning
- Opinion on Current Investment Strategy/Advisors
- Other Financial or Investment Analysis

The Firm's professionals also accept limited financial consulting engagements to conduct any of the listed reviews or analyses on an hourly fee basis.

Unless provided in connection with the wealth management services described above, clients engaging Wealth Architects to provide financial planning or consulting services will generally be required to enter into a separate written agreement with Wealth Architects setting forth the terms and conditions of the engagement and describing the scope of the services to be provided. Financial planning and consultation clients are not required to be wealth management clients of the Firm.

The Firm may recommend its own wealth management or financial planning services or those of other professionals to implement investment recommendations. Clients are advised that a conflict of interest exists if the Firm recommends its own services. The client is under no obligation to act upon any of the recommendations made by Wealth Architects under a financial planning / consulting engagement and/or to engage the services of any recommended professional, including Wealth Architects itself. The client retains absolute discretion over all such planning implementation decisions and is free to accept or reject any of the Firm's recommendations.

### **General Notice**

In performing its services, Wealth Architects relies upon the information received from its client or from their other professional legal, accounting and insurance advisors, and is not required to independently verify such information. Clients must promptly notify us of any

change in their financial situation or investment objectives that would necessitate a review or revision by our advisors of the client's portfolio and/or financial plan.

#### **ASSETS UNDER MANAGEMENT AS OF DECEMBER 31, 2011**

Discretionary Assets - \$288,032,688

Non-discretionary Assets - \$ 27,151,237

#### **TERMINATION OF AGREEMENT**

Clients may terminate their relationship with the Firm by written notice to the Firm. The Firm does not assess any fees related to termination but will be entitled to all management fees earned up to the date of termination. Any prepaid fees owed to the client will be refunded on a pro rata basis determined on the amount of time expired in the calendar quarter. In the event the client terminates the Firm's financial planning and/or consulting services, the balance of the Firm's unearned fees (if any) shall be refunded to the client. If termination occurs within five business days of entering into an agreement for such services the client shall be entitled to a full refund.

If a copy of this Form ADV Part 2A disclosure statement was not delivered to the client prior to or simultaneous with a client entering into a written advisory contract with Advisor, then the client has the right to terminate the contract without penalty within five (5) business days after entering into the contract. For purposes of this provision, a contract is considered entered into when all parties to the contract have signed the contract. If the client terminates the contract on this basis, all fees paid by the client will be refunded. Any transaction costs imposed by the executing broker or custodian for establishing the custodial account or for trades occurring during those five days are non-refundable.

## **2. FEES AND COMPENSATION**

### **ADVISORY FEES**

#### **Wealth Management Fees**

Wealth Architects charges its wealth management clients an annual fee based upon a percentage of the market value of the assets being managed in the clients' portfolios. The Firm's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. However, the Firm shall not receive any portion of these commissions, fees, and costs. The wealth management fee is prorated and charged quarterly, in advance, based upon the market value of the assets on the last day of the previous quarter. The annual fee shall vary (between 0.30% and 0.85%) depending upon the market value of the assets under management and the type of wealth management services to be rendered, as follows:

Value of Account Assets	Annual Fee Rate
Up to 5 million dollars	0.85% plus
Between 5 and 10 million dollars	0.50% plus
Above 10 million dollars	0.30%

Wealth Architects imposes a minimum annual wealth management fee of \$10,000. This minimum fee may have the effect of making the Firm's service impractical for clients, particularly those with portfolios less than \$1,000,000 under management. We may, in our discretion, waive the minimum annual fee based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities.

As stated previously, clients are free to make additions to and withdrawals from their custodial account at any time, subject to the Firm's right to terminate an account if withdrawals render continued management by the Firm unwarranted given its investment strategy and other considerations. If assets are deposited into an account after the inception of a quarter that exceed 10% of the total value of household accounts at the time of the addition, the fee payable with respect to such assets will be prorated based on the number of days remaining in the quarter. Clients may withdraw account assets on notice to the Firm, subject to the usual and customary securities settlement procedures. For partial withdrawals that exceed 10% of the value of the total value of household accounts on the date of the withdrawal, the Firm shall credit its unearned fee towards the next quarter's fee. However, the Firm designs its portfolios as long-term investments and assets withdrawals may impair the achievement of a client's investment objectives.

For the initial quarter of wealth management services, the first quarter's fees are calculated on a *pro rata* basis.

Clients typically authorize the custodian of their account(s) to debit the client's account for the amount of Wealth Architects' wealth management fee and to directly remit that management fee to the Firm. The client's custodian sends a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Wealth Architects. It is the client's responsibility to verify the accuracy of the fee calculation, as the custodian will not determine whether the fee is properly calculated. Clients must discuss any discrepancy in fees with Wealth Architects within 30-days of the billing date.

### **Financial Planning and Financial Consultation Fees**

The Firm offers its financial planning and financial consulting services on either an hourly and/or fixed fee basis. Our financial planning and consulting fees are negotiable, but generally range from \$2,500 to \$100,000 on a fixed fee basis and from \$150 to \$400 on an hourly rate basis, depending upon the level and scope of the services and the professional



rendering the financial planning and/or the consulting services. If the client also engages the Firm for additional wealth management services, the Firm may offset all or a portion of its fees for those services based upon the amount paid for the financial planning and/or consulting services.

Generally, the Firm requires an initial financial planning / consulting deposit of a minimum of \$1,000 (estimated hourly or fixed) payable upon entering the written financial planning or consultation agreement. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services.

### **GENERAL FEE DISCLOSURE**

Wealth Architects receives no commissions on investment products purchased or sold for client accounts and does not pay or accept referral fees.

We believe our wealth management fees are competitive with the fees charged by other investment advisors in the San Francisco Bay area for comparable services. However, comparable services may be available from other sources for lower fees than those charged by Wealth Architects. The client's fee is determined in accordance with the above fee structure, with exceptions negotiated on a case-by-case basis at Wealth Architects' discretion. Any deviations from the fee structure are based upon a number of factors including the amount of work involved, the amount of assets placed under management and the attention needed to manage the account.

### **CUSTODIAN AND BROKERAGE FEES**

Clients incur certain charges imposed by their custodians and other third parties such as custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, clients will incur charges by the executing broker-dealer in the form of brokerage commissions and transaction fees on the investment transactions entered into for their account(s).

These charges, fees and commissions are in addition to the Firm's wealth management fee.

### **FUND DISCLOSURES**

Mutual funds, closed-end funds, exchange traded funds and alternative investment funds are investment vehicles and the investment strategies, objectives and types of securities held by such funds vary widely. In addition to the advisory fee charged by Wealth Architects, clients indirectly pay for the expenses and advisory fees charged by the funds in which their assets are invested.

All such funds incur operating expenses in connection with the management of the fund. Investment funds pass some or all of these expenses through to their shareholders (the individual investors in the funds) in the form of management fees. The management fees charged vary from fund to fund. In addition, funds may charge shareholders (individual investors in the funds) other types of fees such as early redemption or transaction fees.

These charges also vary widely among funds. As a result, clients will pay management fees and other, “indirect” fees and expenses as charged by each mutual fund (or other fund) in which they are invested.

Clients are provided a copy of a fund prospectus for each fund in which they invest by their custodian or by the fund sponsor rather than by Wealth Architects. As required by law, a prospectus represents the fund’s complete disclosure of its management and fee structure.

### **3. PERFORMANCE-BASED FEES**

Wealth Architects does not charge performance related fees. No part of the investment management fee is calculated as a percentage of the capital gain or capital appreciation of assets.

### **4. TYPES OF CLIENTS**

Our clients include individuals and their trusts, estates and retirement plans, pension and profit sharing plans and charitable organizations.

### **5. METHODS OF ANALYSIS, INVESTMENT STRATEGIES, RISK OF LOSS**

#### **METHODS OF ANALYSIS**

Our portfolio managers base their investment analysis on modern portfolio theory. This entails examining the investment goals of each client, determining the amount of investment risk suitable to those goals and building a diversified portfolio of assets to provide appropriate risk-adjusted returns. The Firm relies on leading academic and industry research to inform its investment strategy and utilizes a variety of financial and economic sources to study various asset classes including third party academic research materials, financial newspapers and magazines, corporate rating services, and corporate annual reports, press releases, prospectuses and regulatory filings.

#### **INVESTMENT STRATEGY**

Wealth Architects offers advice on several types of investments including, but not limited to, stocks, bonds, options, mutual funds, municipal securities, and real estate investments. However, the Firm primarily allocates its client’s wealth management assets among mutual funds, exchange traded funds, and individual debt securities in accordance with the investment objectives of the client.

In addition to these types of investments the Firm also provides investment advice regarding alternative investments to qualified clients for whom such investments are deemed suitable. These alternative investments may include, but are not limited to, venture capital limited

partnerships, private equity, managed future funds, hedge funds and third party funds of funds.

## **INVESTMENT RISKS**

All securities investments carry risk, including the risk that an investor may lose a part or all of his or her initial investment. Here are some of the general risks associated with parts of our investment strategy:

**Short-term purchases** - on occasion, generally only for tax management or cash flow purposes, we may determine to buy or sell securities in a client's account and hold them for less than a year. Some of the risks associated with short-term trading that could affect investment performance are increased commissions and transaction costs to the account and increased tax obligations on the gains in a security's value.

**Option Trading** - Certain Wealth Architects clients engage in option trading. Option securities are complex derivatives of equity securities that incorporate certain leverage characteristics and as such carry an increased risk of investment loss.

**Alternative Asset Classes** - Depending upon the type of alternative investment vehicle, clients may not be able to sell their interests readily or in a timely manner. Restrictions on sale or redemption of interests therefore may lead to inconvenience in connection with personal liquidity needs or losses due to the inability to sell interests in volatile financial market conditions.

**Private Equities** - Wealth Architects may purchase or recommend the inclusion of shares in non-publicly traded equities in the accounts of accredited clients. These companies will generally have little available information on their financial status, capital structure or revenues, resulting in increased risk of loss, including total loss. In addition, these securities may be highly illiquid or may experience losses of liquidity - resulting in an inability to sell said equities or sales prices that are substantially below the purchase or market price. Wealth Architects, unless otherwise expressly agreed, will value these positions at their purchase price for any accounting purposes, which may not reflect losses that would be realized if the position was sold. Of particular risk is that Wealth Architects will base its account values for billing purposes on these positions' purchase price (unless another methodology is agreed upon with the client), leading to a potential motivation to overvalue said equities. Finally, Wealth Architects may have clients who are executives of said firms or have other financial relationships that may create conflicts of interest. Where such conflicts exist, Wealth Architects will disclose these conflicts in written format to the clients who hold such securities or whom we intend to purchase such securities under our discretion prior to any transactions.

## **6. DISCIPLINARY INFORMATION**

Wealth Architects has no disciplinary history and consequently, is not subject to any disciplinary disclosures.

## **7. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Wealth Architects is an independent investment advisor, unaffiliated with any other financial institution or securities dealer or issuer. Although we recommend that our clients custody their investment accounts at Charles Schwab & Co., Inc. ("Schwab") or Fidelity Investments ("Fidelity"), we have no affiliation with either company, do not supervise their brokerage activities and are not subject to their supervision.

Although we may refer our clients to other professionals such as attorneys, accountants or insurance specialists for estate planning, tax, insurance or other matters, neither the Firm nor its principal or employees are affiliated with any law, accountancy or insurance firm.

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

The Firm and persons associated with the Firm are permitted to buy or sell securities that it also recommends to clients consistent with the Firm's policies and procedures.

The Firm has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws ("Code of Ethics"). Our Code of Ethics contains written policies reasonably designed to prevent the unlawful use of material non-public information by the Firm or any of its associated persons. The Code of Ethics also requires that Firm personnel report their personal securities holdings and transactions and obtain pre-approval of non-mutual fund security transactions. Clients may contact the Firm to request a copy of its Code of Ethics at any time.

When the Firm is purchasing or considering for purchase any security on behalf of a client, no employee may effect a transaction in that security prior to the completion of the purchase on behalf of Firm clients or until a decision has been made not to purchase such security for clients. Similarly, when the Firm is selling or considering the sale of any security on behalf of a client, no employee may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security.

Employees may buy or sell different investments, based on personal investment considerations, which the Firm may not deem appropriate to buy or sell for clients. It is also possible that employees may take investment positions for their own accounts that are contrary to those taken on behalf of clients. Employees may also buy or sell a specific security for their personal account based on personal investment considerations aside from company or industry fundamentals, which are not deemed appropriate to buy or sell for

clients. This can occur when securities that are not suitable for clients at the time of purchase (e.g., speculative stocks, micro-cap stocks, penny stocks), are purchased by employees. If these securities subsequently appreciate, these personal transactions could be viewed as creating a conflict of interest.

Conversely, employees may liquidate a security position that is held both for their own account and for the accounts of Firm clients, sometimes in advance of clients. This occurs when personal considerations (i.e., liquidity needs, tax-planning, industry/sector weightings) deem a stock sale necessary for individual financial planning reasons. If the security subsequently falls in price, these personal transactions could be viewed as a conflict of interest.

## **9. BROKERAGE PRACTICES**

### **RECOMMENDATION OF SCHWAB AND FIDELITY AS CUSTODIANS AND EXECUTING BROKERS**

Wealth Architects recommends that clients establish brokerage accounts with Schwab and/or Fidelity to maintain custody of their investment assets and to effect trades for their accounts. Both are registered broker-dealers regulated by the Financial Industry Regulatory Authority (“FINRA”) and members of the Securities Investors Protection Corporation (“SIPC”). Schwab and Fidelity are independently owned and operated and not affiliated with Wealth Architects and do not supervise or otherwise monitor Wealth Architects’ wealth management services to its clients.

Our evaluation of Schwab and Fidelity considered a number of factors, some of which are transaction fees, custodial fees charged for holding securities, commission rates, interest charges on debit balances and interest credits on credit balances, quality of execution and record keeping and reporting capabilities. The services provided by Schwab and Fidelity include at least quarterly account statements to clients.

Schwab and Fidelity provide Wealth Architects with access to institutional trading and custody services, which typically are not available to retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a minimum percentage of the advisor’s client assets is maintained in accounts at Schwab or Fidelity, but are not otherwise contingent upon Wealth Architects committing to any specific amount of business (in the form of either assets in custody or trading). Their services include brokerage, custody, research and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

Schwab and Fidelity make available to Wealth Architects other products and services that benefit Wealth Architects but may not directly benefit its clients. Some of these other products and services assist Wealth Architects in managing and administering clients’ accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and

allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of Wealth Architects' fees from its clients' accounts; and assist with back-office functions, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of Wealth Architects' accounts, including accounts not maintained at Schwab or Fidelity. Schwab and Fidelity also make available to Wealth Architects other services intended to help Wealth Architects manage and further develop its business. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, Schwab and Fidelity may make available, arrange and/or pay for these types of services to Wealth Architects by independent third parties. They may discount or waive fees they otherwise would charge for some of these services or pay all or a part of the fees of a third-party providing these services to Wealth Architects. Either or both Schwab and Fidelity may provide other benefits such as educational events or business entertainment to Wealth Architects personnel.

Wealth Architects' recommendation that clients maintain their assets in accounts at Schwab and Fidelity may be based in part on the benefit to Wealth Architects of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab and Fidelity to Wealth Architects' clients, which may create a potential conflict of interest.

#### **DIRECTED BROKERAGE**

In a limited number of cases, clients may direct Wealth Architects to place all orders for securities transactions with a specific broker-dealer (directed brokerage). In these cases, Wealth Architects is not obligated to, and will generally not solicit competitive bids for each transaction or seek the lowest commission rates for the client. As such, the client may pay higher commission costs, higher security prices and transaction costs than it otherwise would have had it not directed Wealth Architects to trade through a specific broker. In addition, the client may be unable to obtain the most favorable price on transactions executed by Wealth Architects as a result of Wealth Architects' inability to aggregate/bunch the trades from this account with other client trades.

Furthermore, the client may not be able to participate in the allocation of a security of limited availability for various reasons, including if those new issue shares are provided by another broker or dealer. As a result of the special instruction, Wealth Architects may not execute client securities transactions with brokers that have been directed by clients until non-directed brokerage orders are completed. Accordingly, clients directing brokerage may not generate returns equal to clients that do not direct brokerage.

Due to these circumstances, there may be a disparity in commission rates charged to a client who directs Wealth Architects to use a particular broker and performance and other differences from other similarly managed accounts. Clients who direct brokerage should understand that similar brokerage services may be obtained from other broker-dealers at lower costs and possibly with more favorable execution.

## **BEST EXECUTION**

Wealth Architects is not obligated to obtain the best net price or lowest brokerage commission on any particular transaction. Rather federal law requires investment managers to use their reasonable best efforts to obtain the most favorable execution for each transaction executed on behalf of client accounts.

In selecting broker-dealers, Wealth Architects' primary objective is to obtain the best execution. Expected price, giving effect to brokerage commissions, if any, and other transaction costs, are principal factors, but the selection also takes account of other factors, including the execution, clearance and settlement capabilities of the broker-dealer, the broker-dealer's willingness to commit capital, the broker-dealer's reliability and financial stability, the size of the particular transaction and its complexity in terms of execution and settlement, the market for the security, the value of any research and other brokerage services provided by the broker-dealer, and the cost incurred by placing prime brokerage trades in client accounts.

Based upon an evaluation of some or all of these factors, Wealth Architects may execute client trades through broker-dealers that charge fees that are higher than the lowest available fees. Wealth Architects may select broker-dealers whose fees may be greater than those charged for similar investments if Wealth Architects determines that brokerage services and research materials provided by that broker-dealer warrant the payment of higher fees.

Wealth Architects reviews transaction results periodically to determine the quality of execution provided by the various broker-dealers through whom Wealth Architects executes transactions on behalf of clients.

## **SOFT DOLLAR ARRANGEMENTS AND POTENTIAL CONFLICTS**

Wealth Architects may accept from an executing broker, such as Schwab or Fidelity, certain research or brokerage services, known as "soft dollar" brokerage services and research or it may allow such broker to pay for soft dollar research or brokerage services provided by a third party. "Soft dollars" refers to the use of brokerage commissions on client trades to pay for the research or brokerage services received. Because many of these services benefit the Firm in conducting its advisory business, and because the soft dollars used to acquire them are assets of its clients (in the form of commissions), it could be considered to have a conflict of interest in allocating client brokerage business, in light of a potential incentive to effect more transactions than it might otherwise in order to obtain those benefits.

Although the Firm may receive soft dollar services and research, it is the Firm's policy to limit its use of soft dollar arrangements to those falling within the safe harbor of Section 28(e) of the Securities and Exchange Act of 1934, as amended. To be protected under Section 28(e), Wealth Architects must, among other things, determine that commissions paid are reasonable in light of the value of the brokerage and "research" services and products acquired. Section 28(e)'s "safe harbor" protects the use of client soft dollars even when the research and brokerage services and products acquired are used in making and implementing investment decisions and transactions for other clients. Only *bona fide* research and brokerage products

and services that provide assistance to the Firm in the performance of its investment decision-making responsibilities are permitted.

Soft dollar research and services may include among others, economic and market information, portfolio strategy advice, proxy voting services, industry and company comments, technical data, recommendations, research conferences, general reports, periodical subscription fees, consultations, performance measurement data, on-line pricing, news wire charges, quotation services, computer hardware and software.

With respect to certain computer equipment and software used for both research and non-research purposes, we may allocate the costs of such products between their research and non-research uses, and use soft dollars to pay only for the portion allocated to research uses.

Wealth Architects may pay a broker a brokerage commission in excess of that which another broker might charge for effecting the same transaction in recognition of the value of the brokerage, research, other services and soft dollar relationships that broker provides. In such a case, however, the Firm determines in good faith that such commission is reasonable in relation to the value of such brokerage, research, other services and soft dollar relationships, viewed in terms of either the specific transaction or its overall responsibilities to the portfolios over which it exercises investment authority. An account may, however, pay higher brokerage commissions than are otherwise available or may pay more brokerage commissions based on account trading activity. In addition, the research and other benefits resulting from a brokerage relationship benefit all accounts managed by us or our operations as a whole, including clients who direct us to use a broker that does not provide soft-dollar benefits. The Firm's relationships with brokerage firms that provide soft dollar services may create conflicts of interest, both in allocating brokerage business between firms that provide soft dollar services and firms that do not, and in allocating the costs of mixed-use products between their research and non-research uses. These conflicts may be influential to the extent that the Firm uses soft dollars to pay expenses it otherwise would be required to pay itself.

Wealth Architects may, on occasion, be the recipient of unsolicited discounts on software and other services. The discounts are generally offered to all firms who fit a common profile and are not offered because of a particular event or request. Such discounts are accepted with the intent to benefit all clients and the value of these discounts is not considered in the process of selecting securities to purchase for client accounts.

For example, at the commencement of the Firm's relationship with Schwab, Schwab, without cost to the Wealth Architects, provided a one-time payment to offset the cost of a computer software system and related support known as "Advent." Advent is a back office portfolio accounting program which allows the Firm to better monitor client accounts maintained at Schwab (and Fidelity.) In addition, at the commencement of the Firm's relationship with Fidelity, Fidelity paid the Firm certain client support payments in connection with client accounts for which Fidelity serves as custodian. These support payments paid by Fidelity were based upon the revenue that was generated by Fidelity by client transactions. Wealth Architects did not retain any of the support payments but rather distributed them to its



clients either directly or through an offset of its advisory fees. Fidelity no longer makes such payments to Wealth Architects.

Wealth Architects routinely considers the amount and nature of the research products and services provided by brokers as well as the extent to which such products and services are relied upon, and will attempt to allocate a portion of its brokerage business on the basis of that consideration. In addition, broker-dealers sometimes suggest a level of business they would like to receive in return for the various services they provide. Actual brokerage business received by any broker-dealer may be less than the suggested allocations, but may be expected to exceed the suggestions, because total brokerage is allocated on the basis of all the considerations described above. In no instance will a broker-dealer be precluded from receiving business simply because it has not been identified as providing research products and services, although Wealth Architects may not be willing to pay the same commission to such broker as Wealth Architects would have paid had the broker provided research products and services.

#### **AGGREGATION OF TRADES AND POTENTIAL CONFLICTS**

In rare instances, Wealth Architects may combine or aggregate transaction orders on behalf of multiple clients and allocate the securities or proceeds on an average price basis among the various participants in the aggregated transaction. Employees may participate in such aggregated orders.

While Wealth Architects believes combining transaction orders in this way should, over time, be advantageous to all participants, in particular cases the average price could be less advantageous to a particular client than if such client had been the only client effecting the transaction or had completed its transaction before the other participants. There may be circumstances in which transactions on behalf of employees may not, under certain laws and regulations, be combined with those of some of Wealth Architects' other clients. In such cases, employees will not effect transactions in a security on the same day as clients until after the clients' transactions have been executed.

When orders are aggregated and filled on the same day, the price paid by each account is the average price of the order. Transaction costs are allocated to each client by the client's custodian according to the client's custodial agreement. It is our policy that trades are not allocated in any manner that favors one group of clients over another over time. Client transactions may be aggregated according to custodial relationship in consideration of "trade away" charges that may be imposed if trades are directed to a non-custodial broker-dealer for execution. Aggregated trades placed with different executing brokers may be priced differently.

#### **ALLOCATION OF OPPORTUNITIES AND POTENTIAL CONFLICTS**

Because we manage more than one client account, there may be a conflict of interest related to the allocation of investment opportunities among all accounts managed by the Firm. We attempt to resolve all such conflicts in a manner that is generally fair to all of clients over time. We may give advice and take action with respect to any of our clients that may differ

from advice given or the timing or nature of action taken with respect to any other client based upon individual client circumstances. It is our policy, to the greatest extent practicable, to allocate investment opportunities over a period of time on a fair and equitable basis relative to all clients. The Firm is not obligated to acquire for any client account any security that the Firm's owner, officers, employees or affiliated persons may acquire for their own accounts or for the account of any other client, if in the discretion of the portfolio managers, based upon the client's financial condition and investment objectives and guidelines, it is not practical or desirable to acquire a position in such security for that account.

#### **USE OF THIRD PARTY TRADE DATA MANAGEMENT SERVICES**

The Firm is aided in its ongoing client account monitoring and management services by the use of third party portfolio and trade data management software and services provided by Schwab Portfolio Center, Fidelity WealthCentral and Tamarac. Such third party services provide linked access to client custodial accounts and trade activity and provide "cloud" storage of such data on their secure, internal computer servers on behalf of the Firm.

#### **10. REVIEW OF ACCOUNTS**

For those clients to whom the Firm provides wealth management services, the Firm monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. Such reviews are conducted by the Principal of the Firm, Mark T. Johnsen or another portfolio manager under his supervision. All wealth management clients are encouraged to discuss their needs, goals, and objectives with the Firm and to keep the Firm informed of any changes thereto. The Firm contacts ongoing wealth management clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

Wealth management clients receive a report from the Firm at least quarterly that includes account values and account performance. Clients are advised to regularly compare the assets and values listed on their Wealth Architects account report with those listed on the custodian's account statements. Those clients to whom the Firm provides financial planning and/or consulting services receive reports from the Firm summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by the Firm.

#### **11. CLIENT REFERRALS AND OTHER COMPENSATION**

Wealth Architects does not pay referral fees to any third party firms or individuals for recommending the Firm to prospective clients, nor is the Firm or its employees paid referral fees by any third party for referring clients to their businesses. We do not direct brokerage transactions to any broker-dealer in exchange for receiving client referrals.

## **12. CUSTODY OF CLIENT ASSETS**

Wealth Architects does not maintain physical custody of client funds or securities. Clients are required to set up their investment accounts with a “qualified custodian,” namely a broker dealer, bank or trust company. Wealth Architects is unable to take even temporary possession of client assets for the purpose of transferring them to the client’s account. Each client has a direct relationship with their custodian and is responsible for making deposits to and withdrawals from their account as necessary. The Firm is given the authority to receive payment of its management fees directly from the account, but it is not authorized to make any other withdrawals or to transfer money out of the account to a third party.

Wealth Architects recommends that clients create their investment accounts at Schwab or Fidelity in part because they are broker-dealers regulated by the Financial Industry Regulatory Authority (“FINRA”) and participate in the Securities Investors Protection Corporation (“SIPC”) insurance fund. (See also, Item 9 Brokerage Practices, above.)

Schwab and Fidelity are obligated to send account statements directly to the client (or to an independent third party representative designated by the client), no less than quarterly, showing all funds and securities held, their current value and all transactions executed in the client’s account, including the payment to Wealth Architects of its wealth management fees.

## **13. INVESTMENT DISCRETION**

Clients appoint us as their wealth advisor and grant full trading and investment authority over their assets at the time they establish their investment accounts at Schwab and Fidelity. Subject to the Firm’s investment strategy and the client’s investment objectives, our portfolio managers are given full discretion to determine:

- Which securities to buy;
- Which securities to sell;
- The amount of securities to buy or sell; and
- Which broker to use to execute each transaction.

This discretion may be limited by client investment guidelines and by any investment restrictions set by the client.

Except in the case of directed brokerage instructions, client securities transactions generally are executed through Schwab and Fidelity to avoid “trade away” fees for trades that are executed at other broker-dealers. In some cases, a particular security may be not be available through Schwab and Fidelity or available only under execution parameters or at an overall cost that makes the use of an alternative executing broker more advantageous for that transaction. In such cases, the portfolio managers have the discretion to select the broker to execute the trade.

The Firm may render non-discretionary wealth management services to clients relative to: (1) variable life/annuity products that they may own, (2) other accounts not custodied at Schwab or Fidelity, and/or (3) their individual employer sponsored retirement plans. In so doing, the Firm either directs or recommends the allocation of client assets among the various mutual fund subdivisions that comprise the variable life/annuity product or the retirement plan. The client assets shall be maintained at either the specific insurance company that issued the variable life/annuity product which is owned by the client, or at the custodian designated by the sponsor of the client's retirement plan.

#### **14. VOTING CLIENT SECURITIES**

Wealth Architects may vote proxies on behalf of its clients for the securities held in their accounts. When we accept such responsibility, we will only cast proxy votes in a manner consistent with the best interest of our clients. Absent special circumstances, all proxies will be voted consistent with guidelines established and described in the Firm's Proxy Voting Policies and Procedures. At any time, clients may contact us to request information about how we voted proxies for that client's securities or to get a copy of the Firm's Proxy Voting Policies and Procedures.

Although the Proxy Voting Guidelines are to be followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, the Firm shall devote an appropriate amount of time and resources to monitor these changes.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that the Firm itself or another Firm client maintains with persons having an interest in the outcome of certain votes, the Firm will take appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

#### **15. STATEMENT OF FINANCIAL CONDITION**

Wealth Architects does not require or solicit prepayment of its management fees from clients six or more months in advance. There are no adverse conditions related to the Firm's finances that are likely to impair its ability to meet its contractual commitments to its clients. The Firm has not been the subject of a bankruptcy filing in the last ten years.