

# ***Carl W. Luxem***

**Registered Investment Adviser**

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*This disclosure brochure provides clients with information about the qualifications and business practices of Carl W. Luxem, an independent investment advisory firm registered with the United States Securities and Exchange Commission ("SEC"). It also describes the services he provides as well his background information. Please contact Carl Luxem at 952-841-8426 if you have any questions about the contents of this disclosure brochure.*

*The information in this brochure has not been approved or verified by the SEC or by any state securities authority. Registration with the SEC does not imply that Carl W. Luxem possesses a certain level of skill or training. Additional information about the firm is available on the Internet at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) under CRD number 154202.*

## **MATERIAL CHANGES**

### **Annual Update**

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

### **Material Changes Since the Last Update**

This update is in accordance with the required annual update for Registered Investment Advisers. Since the last update on March 30, 2011, Carl W. Luxem has updated **Item 5: Fees and Compensation** to reflect a change in his method of fee collection.

Summary of change effective 1/1/12: Luxem collects one-third of his quarterly fee directly from the client's custodial account at the end of each month after services have been rendered (in arrears) rather than collecting the full quarterly fee in advance (prepayment).

### **Full Brochure Available**

This Firm Brochure constitutes the complete brochure for the Firm.

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## MATERIAL CHANGES

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## ADVISORY BUSINESS

### Company

Carl W. Luxem, hereinafter referred to as “Luxem,” is a sole proprietor who has been operating as an SEC-registered investment adviser since August 1, 2010. Prior to that, Luxem had been providing money management services through Money Managers, Inc. since 1986.

### Services

Luxem provides money management services in the form of discretionary money management, wherein the client grants Luxem limited power of attorney to manage the client's assets in accordance with what Luxem deems to be in the client's best interest. Discretionary management comprises 100% of his business. Luxem does not call any of his services “financial planning,” does not furnish investment advice in any manner other than that described above, nor does he furnish legal, tax, or other non-investment related advice to clients. Luxem does not issue periodic publications relating to securities on a subscription basis; nor does he prepare or issue, separate from any service described above, any charts, graphs, formulas or other devices which clients may use to evaluate securities, or special reports or analyses relating to securities.

Discretionary money management includes making day-to-day investment decisions, directing purchases, sales and exchanges of assets, and performing such other related functions as come to bear in the best interest of the client.

Clients select the type of account they desire based on their investment objective. Each type of account utilizes specific percentage ranges of different assets to be utilized to achieve their objective. Clients may not place any additional restrictions on investments in their accounts.

### Assets Under Management

As of December 31, 2011, the total amount of client assets managed by Luxem was approximately \$38 million. All assets are managed on a discretionary basis.

## FEES AND COMPENSATION

### Money Management Fees

The annual fee rate for money management services is 1.50% of assets under management. Clients are billed quarterly in advance based upon the value of the assets in the client's account at the end of the previous quarter (prorated initially from the date of inception). Details of the management fees charged are more fully described in the money management agreement entered into with each client.

Luxem is authorized to invoice the account's custodian directly for his fees. Rather than collecting the full quarterly fee in advance (prepayment), Luxem collects one-third of his quarterly fee from the client's custodial account at the end of each month after services have been rendered (in arrears). The custodian's monthly

statement to the client reflects all fee payments. The client, not the custodian, is responsible for verifying the accuracy of the fee.

### **Important Additional Information**

#### Fee Only

Luxem is compensated solely by fees paid by his clients. He does not accept commissions or compensation from any other source (i.e., mutual funds, insurance products or any other investment product).

#### Luxem May Modify Fees

Luxem retains the right to modify fees in his sole and absolute discretion with prior written notice to clients.

#### Termination of Client Relationship

A management agreement may be canceled at any time, by either party, for any reason upon notice to the other party. In the event of termination of a management agreement, Luxem's fee shall be prorated for the period for which he has managed the account.

#### Mutual Fund Fees

To the extent that client assets are invested in money market funds (or other mutual funds), Luxem's fees for monitoring those assets are in addition to the internal expenses of the fund (including fees paid to the fund's investment managers), which are fully disclosed in each fund's prospectus. Accordingly, the client should review both the fees charged by the funds and the fees charged by Luxem to fully understand the total amount of fees they will be paying and to better evaluate the money management services being provided.

#### Trading and Other Costs

All fees paid to Luxem for money management services are separate and distinct from transaction fees charged by broker-dealers when executing trades for clients. Clients may incur transaction costs in addition to any commissions charged by a broker-dealer when trades in over-the-counter (OTC) securities are executed on their behalf through a broker-dealer on an agency basis. (See the section entitled "Brokerage Practices" beginning on page 5 for additional information on brokerage costs.) In addition, Luxem's management fees do not include the services of any co-fiduciaries, accountants or attorneys.

### **PERFORMANCE-BASED FEES**

Luxem does not accept performance-based fees.

### **TYPES OF CLIENTS**

Luxem generally provides money management services to individuals, high net worth individuals and charitable organizations.

### **Engaging the Services of Luxem**

All clients wishing to engage Luxem for money management services must first enter into a money management agreement and open a custodial account at a custodian designated by Luxem. Luxem's money management services will commence when the custodial account is funded. Clients are responsible for informing Luxem in a timely manner of changes in their investment objective and/or risk tolerance.

### **Conditions for Managing Accounts**

For increased safety of assets, access to tangible cash equivalents not available through conventional brokers, and access to multiple brokerage firms for trading purposes, Luxem requires that client accounts be held in custody at a trust company of his choice. Luxem does not place other conditions on starting or maintaining accounts, but exercises complete discretion in determining who will be accepted and maintained as a client. There is no minimum account size requirement; however, accounts under \$250,000 in value will pay a higher percentage in custody fees due to the minimum fees charged by the custodian.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Types of Investments**

Luxem typically utilizes domestic and foreign equity securities that are exchange-listed or traded over-the-counter; short-term U.S. Treasuries; and liquid tangible cash equivalent assets such as non-numismatic gold coins and stored grain if needed in a currency crisis.

### **Securities Analysis**

Securities analysis methods employed by Luxem include charting, fundamental, technical, cyclical and monetary analysis.

### **Sources of Information**

In analyzing securities, Luxem utilizes various sources of information including research materials prepared by others, stock rating and timing services, annual reports, prospectuses, company press releases and direct contact with company management.

### **Investment Strategies**

Luxem's over-all investment strategy is based on a top-down approach to the global monetary system, domestic economies and financial markets. Individual stock selection is based on bottom-up analysis of each company. Accounts are managed on a completely flexible basis. Thus, depending on the market environment, Luxem may utilize any one or a combination of asset classes and investments within the client's selected account type. Luxem ordinarily makes purchases with the intention of holding for significant long-term capital appreciation.

While "short term" or "trading" purchases are not usually intentional strategies, securities may be sold quickly if factors change so that long-term appreciation is no longer a viable outcome. To maintain trading flexibility, Luxem generally invests cash reserves in low-risk U.S. Treasury money market funds available through the

client's custodian but may also utilize U.S. Treasury bills for cash reserves. Luxem does not utilize margin, short sales or inverse no-load mutual funds (which increase in price when their underlying securities decline and vice versa) to seek profits and/or to hedge in bear markets.

### **Risk**

Investing in securities involves risk of loss that each client should be prepared to bear. Typical investment risks include market risk typified by a drop in a security's price due to a company specific event (e.g. unsystemic risk), or general market and/or monetary activity (e.g., systemic risk). In addition, certain strategies may impose more risk than others. For example, investment risk with international equities also includes fluctuation in currency values, differences in accounting and economic and political stability. Frequent trading of securities can affect investment performance through increased brokerage transaction costs.

### **Cash Management**

Money management fees charged by Luxem include the selection and monitoring of money market mutual funds.

### **DISCIPLINARY HISTORY**

Luxem has never been disciplined by a regulatory agency.

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

Luxem is not engaged in any business or profession other than that of registered investment adviser. Luxem is not registered as a securities broker-dealer, futures commission merchant, commodity pool operator or commodity trading adviser, and is not affiliated with any other entity. Luxem and/or any of his employees are not general partners in any partnership.

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

#### **Code of Ethics**

Luxem has adopted a Code of Ethics to prevent violations of federal securities laws. The Code of Ethics is predicated on the principle that Luxem and his employees owe a fiduciary duty to his clients. Accordingly, Luxem expects all employees to act with honesty, integrity and professionalism and to adhere to federal securities laws. At all times, Luxem and his employees must (i) place client interests ahead of their own interests; (ii) engage in personal investing that is in full compliance with Luxem's Code of Ethics; and (iii) avoid taking advantage of their position. Clients and prospective clients may request a copy of Luxem's Code of Ethics by contacting Carl Luxem at 952-841-8426.

#### **Prohibition on Use of Insider Information**

Luxem has also adopted policies and procedures to prevent the misuse of "insider" information. A copy of Luxem's Insider Trading policies and procedures is available to any client or prospective client upon request. For a copy of Luxem's Insider Trading policies and procedures, please contact Carl Luxem at 952-841-8426.



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

Luxem may buy or sell securities in which Luxem or Luxem's employees own 1% or less of the outstanding shares individually or 5% or less collectively. Likewise, Luxem and his employees may buy or sell securities that Luxem buys or sells for his clients with the stipulation that personal or employee accounts are not given preferential treatment.

## **BROKERAGE PRACTICES**

### **Brokerage Selection**

Luxem is given discretionary authority to select brokerage firms and to negotiate brokerage commissions.

### Best Execution

Best execution has been defined by the SEC as the "execution of securities transactions for clients in such a manner that the client's total cost or proceeds in each transaction is the most favorable under the circumstances." The best execution responsibility applies to the circumstances of each particular transaction. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while Luxem will seek competitive rates, he may not necessarily obtain the lowest possible commission rates for client transactions.

### Broker Analysis

Luxem evaluates a wide range of criteria in seeking the most favorable price and market for the execution of transactions. These include the broker-dealer's trading costs, efficiency of execution and error resolution, financial strength and stability, capability, positioning and distribution capabilities, information in regard to the availability of securities, trading patterns, statistical or factual information, opinion pertaining to trading and prior performance in serving Luxem.

Also in consideration is such broker-dealer's provision of research (referred to as "soft dollars," as further discussed in the "Research/Soft Dollars Benefits" section immediately below). Accordingly, if Luxem determines in good faith that the amount of trading costs charged by a broker-dealer is reasonable in relation to the value of the brokerage and research provided by such broker, the client may pay trading costs to such broker in an amount greater than the amount another broker might receive.

Carl Luxem is responsible for continuously monitoring and evaluating the performance and execution capabilities of brokers that transact orders for his clients to ensure consistent quality of execution.

### Research/Soft Dollar Benefits

Luxem and/or his affiliated persons are not broker-dealers and do not receive any commissions. Luxem may, however, establish trading accounts with broker-dealer firms that, in addition to performing trade execution for a commission, also furnish

investment research (e.g., economic studies, individual company reports, industry analyses, and technical work) which aids his decision-making processes and inures to the benefit of his clients.

### **Directed Brokerage**

Clients are not permitted to direct brokerage.

### **Trade Aggregation/Allocation**

It is the objective of Luxem to provide a means of allocating trading and investment opportunities between advisory clients on a fair and equitable basis and in compliance with all applicable state and federal guidelines. With respect to clients' accounts with substantially similar investment objectives and policies, Luxem may often seek to purchase or sell a particular security in each account. Luxem will aggregate orders when such aggregation is consistent with his duty to seek best execution and is consistent with the investment objective of each client. No client account will be unfairly favored over any other account. Each client that participates in an aggregated order will participate based on the average execution price in that particular security. All securities purchased or sold, whether the order is filled completely or partially, will then be allocated pro rata to each account and all transaction costs will be allocated pro rata based on each client's participation in the transaction.

### **Trade Errors**

Trade errors created in an advisory account must be corrected so as not to harm the client. The client will not suffer any loss from errors determined to be the fault of Luxem and/or the broker-dealer.

## **REVIEW OF ACCOUNTS**

### Reviews

Carl Luxem personally manages all client accounts on an ongoing basis, taking into account each client's selected objective in light of the current investment environment.

### Reports

Formal reports are sent to clients on a quarterly basis along with comments on relevant market and economic conditions. Reports include quantity, cost and current value of account holdings, as well as investment results net of expenses in both dollar and percentage terms. Personal meetings and phone contact between Carl Luxem and his clients occur as warranted.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

Luxem does not receive any economic benefits (e.g., sales incentives, prizes) from non-clients for providing investment advice. Luxem does not directly compensate employees for client referrals and does not have any unaffiliated solicitors.

## **CUSTODY**

Luxem will not have physical custody of any assets in a client's account except as permitted for payment of management fees. Clients are solely responsible for paying

all fees or charges of the custodian pertaining to their account(s). Clients authorize the custodian to accept instructions from Luxem for the purchase, sale, conversion, redemption, exchange or retention of any security, cash or cash equivalent or other investment for the client's account.

Clients will receive monthly statements directly from the custodian. The statement will show all transactions that settled in the client's account during the period covered and itemize all of the assets in the account at the end of the period. *Clients are urged to carefully review the account statement sent by the custodian and compare it with any corresponding statement provided by Luxem.*

## **INVESTMENT DISCRETION**

Luxem's management agreement provides him with limited power of attorney to determine the securities that are bought or sold. He determines how many shares of a stock each client should have based on his model portfolio and places an order for the total number of shares required for all accounts as the market dictates (see the Trade Aggregation/Allocation section on page 6).

## **VOTING CLIENT SECURITIES**

### **Proxy Voting**

Luxem does not vote proxies on behalf of his clients. Therefore, the client maintains exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other events that pertain to the client's investment assets. Luxem and/or the client shall instruct the custodian of the assets to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets. Clients can contact Carl Luxem at 952-841-8426 if they have questions regarding a particular solicitation.

### **Class Action Settlements**

Although Luxem may have discretion over client accounts, he will not be responsible for handling client claims in class action lawsuits or similar settlements involving securities owned by the client. Clients will receive the paperwork for such claims directly. Each client should verify with their custodian's account administrator whether such claims are being made on the client's behalf by the custodian or if the client is expected to file such claims directly.

## **FINANCIAL INFORMATION**

### **Balance Sheet**

Because Luxem does not require or accept prepayment of more than \$1,200 in fees six months or more in advance, Luxem is not required to include a balance sheet with this disclosure brochure.

### **Financial Condition**

Luxem does not have any adverse financial conditions to disclose.

**Bankruptcy**

Luxem has never been the subject of a bankruptcy petition.

**PRIVACY NOTICE**

Luxem views protecting his clients' private information as a top priority and has instituted policies and procedures to ensure that client information is private and secure. Luxem does not disclose any nonpublic personal information about his clients or former clients to any nonaffiliated third parties, except as permitted or required by law. In the course of servicing a client's account, Luxem may share some information with his service providers, such as transfer agents, custodians, broker-dealers, accountants, and lawyers, etc., but only if it is required to process a transaction, is requested by a client, or is otherwise required by law. Luxem restricts internal access to nonpublic personal information about the client to those persons who need access to that information in order to provide services to the client and to perform administrative functions for Luxem. It has always been and will always be his policy never to sell information about current or former clients or their accounts to anyone. For the full text of Luxem's Privacy Policy, please contact Carl Luxem at 952-841-8426.