

# Disclosure Brochure

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This brochure provides information about the qualifications and business practices of Risk 3.0 Asset Management, LLC (hereinafter "Risk 3.0"). If you have any questions about the contents of this brochure, please contact Emil Coscarelli at (973) 206-7320. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Risk 3.0 is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Risk 3.0 is an SEC registered investment adviser. Registration does not imply any level of skill or training.

### **Item 2. Material Changes**

In this Item, Risk 3.0 is required to discuss the material changes which have been made to the Disclosure Brochure since the last annual update. This is Risk 3.0's first annual updating amendment and there have been no material changes made to the contents of the document since its last filing dated October 3, 2011.

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### Item 4. Advisory Business

Founded and principally owned by Mitchell D. Eichen, Risk 3.0 provides investment management services to other investment advisers. The firm has been in business since February 2011. While the investment advisory firm is generally Risk 3.0's client, the term "client(s)" for purposes of this Disclosure Brochure sometimes refers to the clients of the advisory firm that engages Risk 3.0.

Prior to engaging Risk 3.0 to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with Risk 3.0 setting forth the terms and conditions under which Risk 3.0 renders its services (collectively the "*Agreement*").

This Disclosure Brochure describes the business of Risk 3.0. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of the firm's officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on Risk 3.0's behalf and is subject to Risk 3.0's supervision or control.

As of December 31, 2011, Risk 3.0 had \$326,612,575 in assets under management, all of which was managed on a discretionary basis.

#### Investment Management Services

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Clients can engage Risk 3.0 to manage all or a portion of their assets on a discretionary basis. The firm offers a platform of management services to other investment advisers through a sub-advisory relationship.

As detailed in Item 8, Risk 3.0's primary strategies are the (1) Planned Return Strategy®; (2) Accelerated Return Strategy® and (3) Third Rail Strategy®. These strategies are exchange-traded fund ("ETF") strategies using options in an effort to enhance the return and/or buffer the downside, and are offered in a separately managed account format.

Adviser clients are advised to promptly notify Risk 3.0 if there are changes in their client's financial situation or investment objectives, or if they wish to impose any reasonable restrictions upon Risk 3.0's management services. Clients may impose reasonable restrictions or mandates on the management of their account if, in Risk 3.0's sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

### Item 5. Fees and Compensation

#### Investment Management Fee

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Risk 3.0 provides investment management services for an annual fee based upon a percentage of the market value of the assets being managed by Risk 3.0. The firm's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. Risk 3.0 does not, however, receive any portion of these commissions, fees, and costs. Risk 3.0's annual fee is prorated and charged quarterly, in arrears, based upon the average month-end balance of the assets being managed by the firm during the previous quarter. The annual fee varies (between 0.50% and 1.20%) depending upon the market value of the assets under management and the type of investment management services to be rendered.

Risk 3.0, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

#### Fees Charged by Financial Institutions

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As further discussed in response to Item 12 (below), Risk 3.0 generally recommends that clients utilize the brokerage and clearing services of Fidelity Institutional Wealth Services ("*Fidelity*") for investment management accounts. However, Risk 3.0 may also implement trading strategies on other custodial platforms.

Risk 3.0 may only implement its investment management recommendations after the adviser or client has arranged for and furnished the firm with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, *Fidelity*, any other broker-dealer recommended by Risk 3.0, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "*Financial Institutions*").

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties such as custodial fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), 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, for assets outside of any wrap fee programs, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to Risk 3.0's fee.

Risk 3.0's *Agreement* and the separate agreement with any *Financial Institutions* may authorize Risk 3.0 to debit the client's account for the amount of Risk 3.0's fee and to directly remit that management fee to

## Risk 3.0 Asset Management, LLC Disclosure Brochure

Risk 3.0. In the alternative, where Risk 3.0 is acting as a sub-advisor, the primary adviser may debit the end-client's account for the amount of Risk 3.0's fee and to directly remit that management fee to Risk 3.0. Any *Financial Institutions* recommended by the firm have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Risk 3.0. Clients may not elect to have the firm send an invoice for payment.

### **Fees for Management During Partial Quarters of Service**

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For the initial period of investment management services, the fees are calculated on a *pro rata* basis.

The *Agreement* between Risk 3.0 and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. Risk 3.0's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to Risk 3.0's right to terminate an account. Additions may be in cash or securities provided that Risk 3.0 reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to Risk 3.0, subject to the usual and customary securities settlement procedures. However, Risk 3.0 designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. Risk 3.0 may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to market valuation and may be exposed to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

### **Item 6. Performance-Based Fees and Side-by-Side Management**

Risk 3.0 does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

### Item 7. Types of Clients

Risk 3.0 provides its services to other investment advisers.

#### **Minimum Account Size**

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As a condition for starting and maintaining a relationship, the firm imposes a minimum portfolio size of \$200,000. Risk 3.0, in its sole discretion, may accept clients with smaller portfolios 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 clients, account retention, and *pro bono* activities. Risk 3.0 only accepts clients with less than the minimum portfolio size if, in the firm's opinion, the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance. Risk 3.0 may aggregate the portfolios of family members to meet the minimum portfolio size.



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

#### **Investment Strategies and Methods of Analysis**

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Risk 3.0 offers an array of innovative strategies, each with a clear, consistent, predictable pattern of returns. Whether an investor is bullish, bearish, or somewhere in between, the Risk 3.0 Family of Investment Solutions offers strategies that allow investors to express their outlook and match their risk tolerance with clarity and an improved risk-reward profile. These solutions can be used alone or in combination.

Risk 3.0 Investment Solutions currently available for investment include:

- Risk 3.0 Planned Return Strategy<sup>®</sup> — Designed to excel in an environment of slow growth and heightened volatility. This S&P 500-based strategy improves risk vs. return by buffering the first 12% of index losses while enhancing small-to-moderate index gains.
- Risk 3.0 Accelerated Return Strategy<sup>™</sup> — Well-suited for long only equity investors with a moderate to optimistic market outlook. This S&P 500-based strategy improves risk vs. return by accelerating investor returns during rising markets without significantly increasing downside risk.
- Risk 3.0 Third Rail Strategy<sup>™</sup> — For investors who seek to participate in the market but are concerned about another 2008-style market meltdown. This S&P 500-based strategy improves risk vs. return by protecting against steep losses on the index while maintaining exposure to index returns into the mid-double digits.

Accounts are invested over twelve month period into twelve individual one year tranches. The actual performance of the accounts will be a value and time weighted average of the performance of the individual tranches in the account. During the implementation period, funds may be held in a placeholder which matches the asset class from which the funds were transferred, e.g., cash, fixed income, equity, or a diversified portfolio.

#### **Risks of Loss**

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##### *Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

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Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more).

### *Options*

Options allow investors to buy or sell a security at a contracted "strike" price (not necessarily the current market price) at or within a specific period of time. Clients may pay or collect a premium for buying or selling an option. Investors transact in options to either hedge (limit) losses in an attempt to reduce risk or to speculate on the performance of the underlying securities. Options transactions contain a number of inherent risks, including the partial or total loss of principal in the event that the value of the underlying security or index does not increase/decrease to the level of the respective strike price. Holders of options contracts are also subject to default by the option writer which may be unwilling or unable to perform its contractual obligations.

### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

### **Item 9. Disciplinary Information**

Risk 3.0 is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. The firm does not have any required disclosures to this Item.

### Item 10. Other Financial Industry Activities and Affiliations

Risk 3.0 is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. The firm has described such relationships and arrangements below.

#### **Acting as Sub-Advisor for Affiliated Investment Adviser**

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Risk 3.0 renders investment management services to clients of The MDE Group, Inc. ("The MDE Group") (CRD#107718), an affiliated registered investment adviser, pursuant to a sub-advisory relationship between Risk 3.0 and The MDE Group.

These firms are under common control, and certain *Supervised Persons* of Risk 3.0 also serve in the same or similar capacity for The MDE Group. Risk 3.0 and The MDE Group have the same principal address. Risk 3.0 is paid for its investment management services directly by The MDE Group, pursuant to the terms and conditions of the *Agreement* between The MDE Group and the client.

### Item 11. Code of Ethics

Risk 3.0 and persons associated with Risk 3.0 (“Associated Persons”) are permitted to buy or sell securities that it also recommends to clients consistent with Risk 3.0’s policies and procedures.

Risk 3.0 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*”). In accordance with Section 204A of the Investment Advisers Act of 1940 (the “Advisers Act”), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by Risk 3.0 or any of its associated persons. The *Code of Ethics* also requires that certain of Risk 3.0’s personnel (called “*Access Persons*”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in Risk 3.0’s *Code of Ethics*, none of Risk 3.0’s *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of Risk 3.0’s clients.

When Risk 3.0 is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Risk 3.0 is selling or considering the sale of any security on behalf of a client, no *Access Person* 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. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact Risk 3.0 to request a copy of its *Code of Ethics*.

### Item 12. Brokerage Practices

As discussed above, in Item 5, Risk 3.0 generally recommends that clients utilize the brokerage and clearing services of *Fidelity*.

Factors which Risk 3.0 considers in recommending *Fidelity* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. *Fidelity* enables Risk 3.0 to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by *Fidelity* may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by Risk 3.0's clients comply with Risk 3.0's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where Risk 3.0 determines that the commissions are reasonable in relation to the value of the brokerage and research services received. 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 *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Risk 3.0 seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Transactions may be cleared through other *Financial Institutions* with whom Risk 3.0 and the *Financial Institutions* have entered into agreements for prime brokerage clearing services. Risk 3.0 periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct Risk 3.0 in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and Risk 3.0 will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by Risk 3.0 (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Risk 3.0 may decline a client's request to direct brokerage if, in Risk 3.0's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Risk 3.0 will generally (but is not obligated to) combine or "batch" trade orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Risk 3.0's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among Risk 3.0's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that Risk 3.0 determines to aggregate client orders for the purchase or sale of

securities, including securities in which Risk 3.0's *Supervised Persons* may invest, Risk 3.0 generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Risk 3.0 does not receive any additional compensation or remuneration as a result of the aggregation. In the event that Risk 3.0 determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, Risk 3.0 may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist Risk 3.0 in its investment decision-making process. Such research generally will be used to service all of Risk 3.0's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because Risk 3.0 does not have to produce or pay for the products or services.

### **Receipt of Soft Dollars**

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In addition to the research services described above, Risk 3.0 may be offered certain services by broker-dealers and custodians that it may engage to execute securities transactions on behalf of clients. These services may include the payment of all or a portion of clients' or Risk 3.0's administrative costs and expenses of operation, such as marketing expenses, portfolio management software, Advent, and other reasonable expenses, as determined by Risk 3.0. The availability of these benefits may influence the firm to select one broker or custodian rather than another to perform services for clients. Nevertheless, Risk 3.0 will assure either that the fees and costs for services provided to clients by brokers or custodians offering these benefits are not materially greater than they would be if the services were performed by brokers not offering these services. These services may fall outside the safe harbor provided in Section 28(e) of the Securities Exchange Act of 1934, as amended.

The use of brokerage commissions to obtain research products and/or other services and to pay for other non-research services creates a conflict of interest because clients pay for such products and services that are not exclusively for the benefit of clients and may be primarily or exclusively for the benefit of Risk 3.0.

### **Software and Support Provided by Financial Institutions**

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Risk 3.0 may receive from *Fidelity*, without cost to Risk 3.0, computer software and related systems support, which allow Risk 3.0 to better monitor client accounts maintained at *Fidelity*. Risk 3.0 may receive the software and related support without cost because Risk 3.0 renders investment management services to clients that maintain assets at *Fidelity*. The software and related systems support may benefit Risk 3.0, but not its clients directly. In fulfilling its duties to its clients, Risk 3.0 endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Risk 3.0's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence Risk 3.0's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Additionally, Risk 3.0 may receive the following benefits from *Fidelity* through the Fidelity Institutional Wealth Services Group: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its Institutional Wealth Services Group participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.



### **Item 13. Review of Accounts**

For those clients to whom Risk 3.0 provides investment management services, Risk 3.0 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 one of Risk 3.0's investment adviser representatives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom Risk 3.0 provides investment advisory services will also receive a report from Risk 3.0 that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance on a quarterly basis. Clients should compare the account statements they receive from their custodian with those they receive from Risk 3.0.

### Item 14. Client Referrals and Other Compensation

#### Client Referrals

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Risk 3.0 is required to disclose any arrangement where it provides compensation to a third party for client referrals. Risk 3.0 does not compensate for client referrals.

#### Other Economic Benefit

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Risk 3.0 is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12.

### Item 15. Custody

Risk 3.0's *Agreement* and/or the separate agreement with any *Financial Institution* may authorize the firm through such *Financial Institution* to debit the client's account for the amount of Risk 3.0's fee and to directly remit that management fee to Risk 3.0 in accordance with applicable custody rules. In the alternative, where Risk 3.0 is acting as a sub-advisor, the primary adviser may debit the end-client's account for the amount of Risk 3.0's fee and to directly remit that management fee to Risk 3.0.

The *Financial Institutions* recommended by Risk 3.0 have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Risk 3.0. In addition, as discussed in Item 13, the firm also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from Risk 3.0.

### Item 16. Investment Discretion

Risk 3.0 is given the authority to exercise discretion on behalf of clients. Risk 3.0 is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. Risk 3.0 is given this authority through a power-of-attorney included in the agreement between Risk 3.0 and the adviser or client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). Risk 3.0 may take discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The *Financial Institutions* to be utilized.

### Item 17. Voting Client Securities

Risk 3.0 is required to disclose if it accepts authority to vote client securities. Risk 3.0 does not vote client securities on behalf of its clients. Clients receive proxies directly from the *Financial Institutions*.

### Item 18. Financial Information

Risk 3.0 is not required to disclose any financial information pursuant to this Item due to the following:

- The Firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance;
- The Firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.



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