

**Part 2A of Form ADV: *Firm Brochure***



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**This brochure provides information about the qualifications and business practices of Newfound Research LLC. If you have any questions about the contents of this brochure, please contact us at (617) 531-9773 or [info@newfoundresearch.com](mailto:info@newfoundresearch.com). 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 Newfound Research LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). One's status as a "registered investment advisor" does not imply a certain level of skill or training.**

## **Item 2- Material Changes**

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Not Applicable.

### **Item 3- Table of Contents**

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## **Item 4- Advisory Business**

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Newfound Research LLC (“Newfound”) is a financial technology and product innovation firm focused on tactical risk management. Newfound’s principal activity is strategy and product development for asset managers, utilizing its proprietary algorithms, trade secrets and technology. Newfound’s algorithms provide binary exposure recommendations to asset managers for their use in developing dynamic strategies for managing risk. Newfound’s clients are typically asset managers at financial institutions, such as asset management firms, boutique investment management firms, and managers of mutual funds and hedge funds. Newfound does not conduct business directly with individual investors. Newfound was formed as a Delaware limited liability company in August 2008. The company’s principal owners are Corey M. Hoffstein (through his wholly owned company Newfound Holdings LLC), David J. Morton, and Thomas B. Rosedale.

Newfound’s technology is used by its asset manager clients in connection with the creation and implementation of a variety of investment products.

Newfound’s offerings include:

- Strategy and product development utilizing our dynamic risk management tools;
- Data provision from our proprietary quantitative algorithms; and
- Analytics licensing to construct and manage tactical portfolios.

Data provided by our technology is used by our clients, among other things:

- To create risk indices driving individual security or total portfolio allocation decisions;
- To provide specific asset class exposure recommendations driving allocation decisions; and
- As an input in a portfolio optimization process.

Newfound’s technology makes exposure determinations and recommendations based on data outputs from its proprietary quantitative algorithms. The Newfound exposure recommendation signals are derived based on, among other things:

- Price of a security;
- Volatility; and
- Changes in price and volatility, within the “Adaptive Event Window,” which is determined by the company’s proprietary algorithms. See Item 8 for an explanation of “Adaptive Event Window.”

Newfound's services are custom tailored to the individual needs of each of our clients. This customization occurs through Newfound's collaboration with each client.

Newfound does not participate in a wrap fee program. Newfound does not manage any client assets. Newfound receives a percentage fee based on its client assets under management or advisement for those portfolios or products utilizing its data or services or which are otherwise subject to agreements with Newfound.

## **Item 5- Fees and Compensation**

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Newfound does not have a standard fee schedule. Fees are generally billed in arrears and paid monthly or quarterly. Newfound is typically paid between 10 and 20 basis points on a client's assets under management or advisement for products subject to agreements with Newfound. In addition, in the future, Newfound may serve as a sub-advisor, in which case, it expects its fee will be approximately 55 basis points on assets under management. Newfound does not collect fees in advance. Fees are heavily negotiated on a case-by-case basis.

Newfound's fee arrangements can include:

- Basis points (i.e., percentage of assets under management or advisement);
  - Increasing basis points as time passes; or
  - Decreasing basis points as assets increase.
- Set-up / implementation fees;
- Support and maintenance fees for the provision of technology services through an affiliated entity, Newfound Services LLC;
- Licensing fees;
- Fees to obtain or maintain exclusivity;
- Sharing of management fees and carried interest payment in the case of certain types of products, such as hedge funds; and
- Consulting fees through an affiliated entity, Newfound Services LLC.

Typical factors considered in determining fees to be charged to a client include:

- The type of product desired by the client;
- The client's requested level of exclusivity, if any;
- The scope of the license relating to the amount and type of data and how it can be used by the client;
- The portion of a client's overall portfolio strategy that Newfound contribution represents; and
- Whether a client has an existing asset base for the strategy or plans to build the product and assets under management around our data.

No officer, partner, director, employee or other person who provides investment advice on behalf of Newfound accepts compensation for the sale of securities or other investment products from our clients. Newfound does not hold or facilitate the purchase of securities.

### **Item 6- Performance-Based Fees and Side-By-Side Management**

Newfound does not collect performance-based fees, but may consider doing so in the future.

### **Item 7- Types of Clients**

Newfound develops risk-managed strategies, provides data and licenses analytics to asset managers at financial institutions, such as asset management firms, boutique investment management firms, and managers of mutual funds and hedge funds. Newfound does not conduct business directly with individual investors. Although Newfound has no minimum requirement for client assets under management or advisement, it strives to work with clients who are believed to have the capacity to develop and distribute products with larger asset targets.

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

Newfound's technology is used for product model construction and to provide data useable for allocation decisions by our clients. Newfound's models are used by our clients as building blocks for their development of risk managed solutions. All exposure recommendations provided to clients are derived from our proprietary algorithms.

#### **Method of Analysis/Investment Strategies**

Newfound's algorithms work by analyzing a security's time series, creating metrics for price, price change, volatility, and change in volatility. These metrics are used to define the current environment and expected normal behavior for the security. Newfound's technology then constructs an Adaptive Event Window, identifying the amount of information the model will use to determine the true underlying trend of the security. Depending on the market environment or the current behavior model, this window will change in size. Once the Adaptive Event Window has been constructed, the model seeks to identify the significant data points within the window that will be used to construct the true underlying trend. These significant data points are identified to seek to remove day-to-day noise from the time-series. Using the significant data points, the model of the underlying trend is constructed. The orientation and persistence of this underlying trend provides the ultimate signal as to whether the model recommends exposure to the

security. The program then produces a binary output recommending exposure or no exposure. As the time series changes, so will the “Adaptive Event Window,” the significant data points and the resulting underlying trend.

Newfound’s model focuses on different information depending on market conditions. For example, in “slow” markets, our technology recognizes that investors tend to focus on a greater horizon of information, using multiple quarters of financial information to make their forecasts. In “fast” markets, investors heavily focus on the most recent information. Newfound’s algorithms seek to distinguish between market environments to determine the information that should be carefully scrutinized in making exposure recommendations.

## **Risks**

Any investment in securities involves a risk of loss. Anyone choosing to adopt Newfound’s recommendations should be prepared to bear any loss that might occur. More specific risks associated with our technology are outlined below.

**General Risk:** All quantitative analysis carries a risk that the mathematical model used might be based on one or more incorrect assumptions. For example, Newfound’s model is based on the premise that price and volatility are significant factors in distinguishing event windows and approximating market sentiment.

**Data Risk:** Newfound’s system relies on the cleanliness and accuracy of the data (such as stock prices) that input into our algorithms to generate exposure recommendation signals. If input data is inaccurate, then the data output will similarly be tainted. As such, live, current data is inherently more reliable than back tested results.

**Hacking Risk:** Despite the precautions and security measures Newfound employs, there is a risk that unauthorized outside interference with the technology’s programming or distribution method could impair its functioning.

**Risk of Bugs:** There is a risk that unforeseen anomalies in programming might render the algorithms or data delivery mechanisms inoperative.

**Quantitative Risk:** There is a risk that rapidly changing and unforeseen market dynamics could lead to a decrease in short term effectiveness of the model.

**Macroeconomic Risk:** Unusual events, such as, those resulting from shifts in geo-political, systematic, economic, or social conditions may result in abrupt changes to a security’s price, which could upset the model’s ability to make accurate exposure recommendations.

**Use of Data Risk:** There is a risk that data provided by Newfound, once received, will not be utilized by Newfound’s clients in the optimal manner.

## **Item 9- Disciplinary Information**

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There are no legal or disciplinary events that are material to our client's or prospective client's evaluation of our advisory business or the integrity of our management.

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

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David J. Morton, a principal owner of Newfound, is a registered representative of a broker-dealer, Capitol Securities. See Morton Wealth Advisors' Form ADV Brochure, IARD/CRD #: 142912. No management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

### **Material Relationships of Newfound Owners**

Newfound does not recommend or select other investment advisers for our clients.

David J. Morton, a principal owner of Newfound, is a principal of Morton (previously defined), a financial advisory firm. In this capacity, he operates as a registered representative and investment adviser representative of Capitol Securities. Additionally, he is a licensed insurance agent and offers life, disability, fixed and variable annuities and other insurance products.

Thomas B. Rosedale, a principal owner of Newfound, is a licensed attorney and a member of the Massachusetts bar. Mr. Rosedale provides legal services to Newfound through BRL Law Group LLC, a corporate boutique law firm located in Boston, MA, which is wholly owned by Mr. Rosedale.

Mr. Morton is the majority owner of Edgartown Advisors LLC ("Edgartown") (a registered investment advisor), in which Mr. Rosedale has a minority interest. Edgartown participates in net revenue from, and has certain financial responsibilities to Copeland Capital Management LLC, a client of Newfound's, with respect to, the Copeland Risk Management Dividend Growth Fund ("Fund"). Edgartown has no operational role with the Fund or the distribution of the Fund or with Copeland Capital Management LLC. Copeland Capital Management LLC licenses data from Newfound for use by the Fund.

Eric Brown has less than a 5% economic interest in Newfound. Mr. Brown acts as the portfolio manager to the Fund and is CEO and majority owner of Copeland Capital Management LLC. Mr. Brown has no operational role with Newfound, and his interest is purely economic and passive.

Newfound does not believe these relationships present any material conflict of interests.



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

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Newfound has adopted a code of ethics pursuant to SEC rule 204A-1. A copy of the code will be provided to clients or prospective clients upon request.

Newfound's Code of Ethics, among other things, requires that supervised persons:

- Adhere to the highest standards of fiduciary duties in all matters relating to our clients;
- Always place client interests above their own;
- Perform their duties in accordance with all applicable legal and ethical standards;
- Fully disclose any conflict of interest material to clients;
- Refrain from the use of material non-public information in making or formulating recommendations;
- Provide written acknowledgement of receipt of the code and any amendments;
- Report personal securities holdings and transactions periodically to the Chief Compliance Officer;
- Obtain prior approval before they directly or indirectly acquiring beneficial ownership in any security in an initial public offering or in a limited offering; and
- Report any violations of the code of ethics to Newfound's Chief Compliance Officer.

Neither Newfound nor any related person has recommended to clients any securities in which they have a material financial interest.

At times, Newfound's algorithms may recommend to clients the purchase or sale of securities that are owned by Newfound or its personnel.

Neither Newfound nor any related person has recommended securities to clients while at the same time buying the securities for their own account.

## **Item 12- Brokerage Practices**

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Newfound does not select or recommend broker-dealers for client transactions or determine the reasonableness of broker dealer compensation. Furthermore, we do not aggregate the purchase or sale of securities for client accounts.

### **Item 13- Review of Accounts**

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Newfound periodically reviews data and recommendations to determine if its algorithms are working in a manner consistent with its expectations. In addition, at the request of a client, Newfound will review any client performance data provided by the client. These reviews are conducted by principals, Corey M. Hoffstein and Thomas B. Rosedale. If significant deviations from benchmark results are identified, Newfound will increase the frequency and thoroughness of its review. Newfound does not provide any written account reports to clients. Each client is expected to monitor the status of its own holdings.

Newfound reports any observed concerns to affected clients in a timely fashion.

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

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No party who is not a client of Newfound has provided Newfound an economic benefit for providing investment advice or other advisory services to Newfound clients.

To date, none of Newfound, its affiliates, or persons under common control with Newfound has directly or indirectly compensated any person who is not an officer, partner, director, employee, or other supervised person for client referrals. Newfound expects to utilize third parties for introductions to potential new clients, and may consider paying appropriate and customary finder's fees in such a case.

### **Item 15- Custody**

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Newfound does not take custody of any client funds.

### **Item 16- Investment Discretion**

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Newfound does not make any investment decisions for its clients. We provide data and recommendations to our clients. Ultimately, investment decisions are made by our clients.

### **Item 17- Voting Client Securities**

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Newfound does not hold client securities and does not have voting discretion over client securities.

### **Item 18- Financial Information**

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Newfound is not required to provide a balance sheet with this brochure.