



RED LIGHTHOUSE  
INVESTMENT MANAGEMENT, LLC

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October 1, 2013

This Brochure provides information about the qualifications and business practices of Red Lighthouse Investment Management, LLC. If you have any questions about the contents of this Brochure, you may contact us at (212) 799-3532, or email [msladkus@redlighthouseinvestment.com](mailto:msladkus@redlighthouseinvestment.com) to obtain answers and additional information. Red Lighthouse Investment Management, LLC is a registered investment advisor with the Securities and Exchange Commission (SEC). Registration of an investment adviser does not imply any level of skill or training. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission.

Additional information about Red Lighthouse Investment Management, LLC is available on the SEC's website at [www.Adviserinfo.sec.gov](http://www.Adviserinfo.sec.gov).

## Item 2 – Material Changes

There have been no material changes since our previous annual update to our Brochure. The date of our previous annual update to our Brochure was March 7, 2012.

Our Brochure is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Red Lighthouse Investment Management, LLC is 145682. We may provide ongoing disclosure information about material changes as necessary and will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Mark Sladkus at (212) 799-3532, or by email to [msladkus@redlighthouseinvestment.com](mailto:msladkus@redlighthouseinvestment.com).

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Part 2A of Form ADV – Firm Brochure

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**Item 4 – Advisory Business**

- A** Red Lighthouse Investment Management, LLC (“Red Lighthouse” “we” “us” “Firm” and “Advisor”) is a New York limited liability company registered as an investment advisor under the laws of the Securities and Exchange Commission. Our principal place of business is located in New York City, NY. Mark Sladkus is the President and sole owner of Red Lighthouse which he founded in 2007.
- B** In our investment advisory services offered to our Clients, we provide broadly diversified portfolios customized to each Clients’ needs. We focus on asset allocation, providing structured portfolio management. Within each asset class, we primarily use index funds and other “passive” products.
- C** We construct portfolios to match our Client’s unique risk tolerance, financial objectives, and individual requirements. We believe that our use of low-fee, tax-efficient funds better enables our Clients to meet their financial goals. Once an individual Client’s investment policy is established, we are disciplined about rebalancing the investments.
- D** We do not participate in any wrap-fee programs.
- E** We manage \$144,600,000 of Client assets, on a discretionary basis and \$1,700,000 of Client assets, on a non-discretionary basis. These amounts were calculated as of December 31, 2012.

## Item 5 – Fees and Compensation

- A** Red Lighthouse is a fee-only advisory Firm, meaning we are compensated only by our Clients and do not receive compensation or commissions from any other parties. We believe this method of compensation minimizes conflicts of interest.

In consideration for our services, Clients pay us a fee quarterly in arrears, with payment due within 2 to 3 days from the date of the invoice. The fee will be equal to the agreed upon rate per annum, billed quarterly on a pro rata basis.

Compensation to us for our services will be calculated in accordance with “Schedule A” of the Investment Advisory Agreement (“IAA”) which is entered into with each Client. We reserve the right to amend the fee but only upon 30-days prior written notice to each Client.

### STANDARD FEE SCHEDULE

#### Schedule A

<u>Assets Under Management</u>	<u>Annual Fee</u>
First \$1 million	1.00%
Second \$1 million	0.75%
Third \$1 million	0.60%
Fourth \$1 million	0.60%
Fifth \$1 million	0.50%
Over \$5 million	Negotiable

For purposes of determining value, securities, mutual funds, and other instruments traded on a market for which actual transaction prices are publicly reported shall be valued at the last reported sale price on the principal market in which they are traded

- B** Our fees may be paid directly to us from the account by the custodian holding a Client’s assets upon submission of an invoice to the custodian showing the amount of fees, the value of the Client’s assets on which the fees are based, and the specific manner in which the fees are calculated. Payment of fees may result in the liquidation of Client’s securities if there is insufficient cash in the account. Copies of the fee invoices will be mailed to each Client as required. Clients bear the responsibility for verifying the accuracy of fee calculations.
- C** In addition to our fee and any sub-advisor’s fees, Clients may be required to pay brokerage commissions, stock transfer fees, and other similar charges incurred in connection with transactions for their account. These fees are paid out of the assets in a Client’s account and are in addition to the investment management fees paid to us.

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- D** The market value will be construed to equal the sum of the values of all assets in the account, adjusted by any margin debit. Fees for partial quarters at the commencement or termination of an Investment Advisory Agreement will be billed or refunded on a pro rata basis contingent on the number of days the account was open during the quarter. Quarterly fee adjustments for additional assets received into the account during a quarter or for partial withdrawals will also be provided to Client's on the above pro rata basis.
- E** We are a fee-only investment advisory Firm paid on a percentage of Client assets managed or a flat fee. This means that no supervised person associated with us receives or accepts any compensation for the sale of securities or investment products.

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

We do not charge any performance-based fees for our services. Accordingly, this Item is not applicable to our Firm.

### Item 7 – Types of Clients

We provide investment advice to the following types of Clients:

- Corporations
- Individuals
- Foundations
- Endowments
- Pension and Profit Sharing Plans
- Trusts, Estates or Charitable Organizations

Because each Client is unique, we encourage involvement in the planning and processes involved in the management of their accounts. Such involvement does not have to be time consuming, however we want our Clients to remain informed and have a sense of security about their investments.

We generally set a minimum account requirement of \$2,000,000 as a condition for managing a Client's account. However, under certain limited circumstances we may waive this requirement.



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

- A** We construct portfolios primarily using passive mutual funds such as index funds. We believe these provide the best investment option based on diversification, low cost, tax efficiency, and the investment community's inability to consistently out perform with active management strategies.

***The basic tenets under Client portfolios are managed include the following:***

1. Modern Portfolio Theory, as recognized by the 1990 Nobel Prize, will be the philosophical foundation for how the portfolio will be structured and how subsequent decisions will be made. The underlying concepts of Modern Portfolio Theory include:
  - Investors are risk averse. The only acceptable risk is that which is adequately compensated by potential portfolio returns.
  - Markets are efficient. It is virtually impossible to anticipate the future direction of the market as a whole or of any individual industry or security. It is, therefore, unlikely that portfolio managers will “beat the market” through skill.
  - The structure of the portfolio as a whole is more important than the selection of any particular security within the portfolio. The appropriate allocation of capital among asset classes (stocks, bonds, cash, etc.) will have far more influence on long-term portfolio results than the selection of individual securities.
  - For a given risk level, an appropriate combination of asset classes will maximize returns. Diversification helps reduce portfolio volatility. The proportional mix of asset classes determines the long-term risk and return characteristics of the portfolio as a whole.
  - Portfolio risk can be reduced by increasing the diversification of the portfolio by selecting asset classes based on their correlation with the portfolio.
2. Investing globally helps to minimize overall portfolio risk due to the imperfect correlation between economies of the world. Investing globally has also been shown historically to enhance portfolio returns, although there is no guarantee that it will do so in the future.
3. Equities offer the potential for higher long-term investment returns than cash or fixed income investments. Equities are also more volatile in their performance. Investors seeking higher rates of return must increase the proportion of equities in their portfolio, while at the same time accepting greater variation of results (including occasional declines in value).

4. Picking individual securities and timing the purchase or sale of investments in the attempt to “beat the market” are highly unlikely to increase long-term investment returns; they also can significantly increase transaction costs and taxes.

We primarily offer advice on mutual funds. However, from time to time we may also provide advice on the following:

- Equity securities such as:
  - Exchange-listed securities including Exchange Traded Products such as ETFs.
  - Securities traded over-the-counter
  - Foreign issuers
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Municipal securities
- United States government securities
- Options contracts on:
  - Securities

The primary investment strategies used to implement investment advice given to Clients include long-term (securities held at least one year) and short-term (securities sold within a year) purchases, taking into consideration a Client’s tax situation when buying or selling securities and mutual funds.

We are advocates of an overall passive approach to investing, particularly in equities. Red Lighthouse utilizes widely known research in the history of returns in U.S. financial markets, which has shown that approximately 90% of the variability in portfolio returns is due to the asset allocation decision. Further study by peer-reviewed academics supports the tenet that, on average, money managers are not adding value above their asset allocation policy due to their combination of timing, security selection, management fees and expenses.

Our passive approach is also based on the science of the capital markets, rather than speculation and market timing, using primarily Dimensional Fund Advisors (DFA) mutual funds. This approach builds broadly diversified portfolios in the worldwide fixed-income and equity markets, combined with periodic rebalancing.

“Passive” or “indexing” is an investment approach that seeks to track the performance of a specific benchmark, or index. Index funds do this by holding all (or a representative sample) of the securities in the index being tracked. This “passive” investment approach emphasizes broad diversification, limited trading of the securities held in the portfolio, and low costs.

“Active management” generally refers to a portfolio management strategy where the manager makes specific investments with the goal of outperforming an investment benchmark index. Investors or mutual funds that do not aspire to create a return in excess of a benchmark index will often invest in an index fund that replicates as closely as possible the investment weighting and returns of that index; this is called passive management. Active management is the opposite of passive management, because in passive management the manager does *not* seek to outperform the benchmark index.

- B** We will use our best judgment and good faith efforts in rendering services to our Clients. However, we cannot warrant or guarantee any particular level of account performance, or that an account will be profitable over time. Not every investment decision or recommendation made by us will be profitable. Clients assume all market risk involved in the investment of account assets under the Investment Advisory Agreement and understands that investment decisions made for this account are subject to various market, currency, economic, political and business risks.

Nothing in this Agreement shall relieve us from any responsibility or liability we may have under state or federal statutes.

Except as may otherwise be provided by law, we are not liable to Clients for:

- Any loss that a Client may suffer by reason of any investment decision made or other action taken or omitted in good faith by us with that degree of care, skill, prudence and diligence under the circumstances that a prudent person acting in a fiduciary capacity would use;
- Any loss arising from our adherence to a Client’s instructions; or
- Any act or failure to act by a custodian of a Client’s account.

It is the responsibility of each Client to give us complete information and to notify us of any changes in financial circumstances or goals.

- C** As referenced above, our advisory services generally recommend a passive approach based on the science of the capital markets, rather than speculation and market timing, using primarily passive mutual funds and other index-based mutual funds.

### **Item 9 – Disciplinary Information**

We are required to disclose all material facts regarding any legal or disciplinary event that would be material to your evaluation of our Firm, or the integrity of our management. We have no information to disclose applicable to this Item.

**Item 10 – Other Financial Industry Activities and Affiliations**

We do not participate in any other material activities and have no other financial industry affiliations to disclose.

**Item 11 – Code of Ethics, Participation or Interest in Client Transactions  
& Personal Trading**

- A** Red Lighthouse has a Code of Ethics which all employees are required to follow. The Code of Ethics outlines proper conduct related to all services provided to Clients. Prompt reporting of internal violations is mandatory. A copy of the Code of Ethics is available to any Client or prospective Client upon request.
- B-D** Red Lighthouse or individuals associated with us may buy and sell some of the same securities for our own account that we buy and sell for our Clients. In all instances, where appropriate we will purchase a security for all of our existing accounts for which the investment is appropriate before purchasing any of the securities for our own account and, likewise, when we determine that securities should be sold, where appropriate will cause these securities to be sold from all of our advisory accounts prior to permitting the selling of the securities from our accounts. In some cases we may buy or sell securities for our own account for reasons not related to the strategies adopted by our Clients.

We will disclose to Clients any material conflict of interest which could reasonably be expected to impair the rendering of unbiased and objective advice.

## Item 12 – Brokerage Practices

- A** Our Clients' assets are held by independent third-party custodians. Except to the extent that a Client directs otherwise, we may use our discretion in selecting or recommending the custodian. Clients are not obligated to effect transactions through any custodian recommended by us. In recommending a custodian we will comply with our fiduciary duty in accordance with the Securities Exchange Act of 1934, to obtain best execution and will take into account such relevant factors as:
- Price;
  - The custodian's facilities, reliability and financial responsibility;
  - The ability of the custodian to effect transactions, particularly with regard to such aspects as timing, order size and execution of order;
  - The research and related brokerage services provided by such custodian to us, notwithstanding that the account may not be the direct or exclusive beneficiary of such services; and
  - Any other factors that we consider to be relevant.
- B** We are authorized in our discretion to aggregate purchases and sales and other transactions made for the account with purchases and sales and other transactions in the same or similar securities or instruments for our other Clients. When transactions are so aggregated, the actual prices applicable to the aggregated transactions will be averaged, and the account will be deemed to have purchased or sold its proportionate share of the securities or instruments involved at the average price so obtained. We will direct that confirmations of any transactions effected for the account will be sent, in conformity with applicable law, to the Client.

**Item 13 – Review of Accounts**

- A** Accounts are conducted and reviewed by Mark Sladkus. The frequency of reviews is determined by the Client's investment objectives and will occur no less than once a quarter.
- B** More frequent reviews may also be triggered by a change in Client's investment objectives; tax considerations; large deposits or withdrawals; large sales or purchases; loss of confidence in corporate management; or, changes in macro-economic climate.
- C** All Clients receive asset allocation reports on a quarter or more often basis from Red Lighthouse. All Clients also receive account statements from the custodian of their accounts on a quarterly or more often basis.



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

Steven Schoenfeld is an Investment Advisor Representative contractor to our Firm who markets our services to potential new Clients. Mr. Schoenfeld does not provide investment advice to any Clients or prospective Clients and is compensated based on a portion of fees generated by new Clients introduced to our Firm.

### Item 15 – Custody

Except for having the ability to deduct our fees from a Client's custodial account, we do not have custody of the assets in any Client accounts. Accordingly, we have no liability to Clients for any loss or other harm to any property in the account, including any harm to any property in the account resulting from the insolvency of the custodian or any acts of the agents or employees of the custodian and whether or not the full amount or such loss is covered by the Securities Investor Protection Corporation ("SIPC") or any other insurance which may be carried by the custodian. Clients understand that SIPC provides only limited protection for the loss of property held by a broker-dealer.

#### **Item 16 – Investment Discretion**

Except as otherwise instructed, Clients grant us ongoing and continuous discretionary authority to execute investment recommendations in accordance with our Statement of Investment Policy (or similar document used to establish a Client's objectives and suitability), without the Client's prior approval of each specific transaction. Under this discretionary authority, Clients allow us to purchase and sell securities and instruments in their account(s), arrange for delivery and payment in connection with the foregoing, select and retain sub-advisors, and otherwise act on their behalf in most matters necessary or incidental to the handling of the account, including monitoring certain assets.

In some limited circumstances, Clients grant us non-discretionary authority to execute investment recommendations as stated above. Non-discretionary authority requires us to obtain a Client's approval of each specific transaction prior to executing investment recommendations, as well as for the selection and retention of sub-advisors to their account.

All transactions in the account are made in accordance with the directions and preferences provided to us by each Client. Clients execute instructions regarding our trading authority as required by each custodian.

**Item 17 – Voting Client Securities**

Unless specifically directed otherwise in writing by a Client, we are not authorized to receive and vote proxies on issues held in any Client accounts and we do not receive annual reports.

**Item 18 – Financial Information**

- A** We do not require prepayment of fees.
- B** As noted in Item 15 above, we do not have custody of Client's funds or securities excepting the ability to deduct fees. We have no financial commitments which would impair our ability to meet the contractual and fiduciary commitments to our Clients.
- C** We have never been the subject of any bankruptcy proceedings.