

## Part 2A of Form ADV: Firm Brochure

### Item 1: Cover Page

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#### Jemstep, Inc.

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Date: 01/28/13

**Note:** This brochure is prepared in accordance with the rules and regulations of the SEC and provides information about the qualifications and business practices of Jemstep, Inc. If you have any questions about the contents of this brochure, please contact us at [compliance@jemstep.com](mailto:compliance@jemstep.com). The information in this brochure has not been verified or approved by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Jemstep, Inc. is also available at the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



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## Item 2:      Material Changes

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We are required to advise you of any material changes to our Firm Brochure (“Brochure”) from our last annual update, identify those changes on the cover page of our Brochure or on the page immediately following the cover page, or in a separate communication accompanying our Brochure. Please note that we do not have to provide this information to a client or prospective client who has not received a previous version of our brochure.

The following are the material changes to this brochure:

Item 4: Advisory Business: has been updated to more accurately describe our current online investment management and guidance service which includes portfolio management.

Item 5: Fees: has been updated to reflect the fees being introduced for our new Premium services.

Item 8 A: has been updated to include our methodology relating to portfolio selection.

Various other non-material and grammatical changes have been made to the brochure to better describe Jemstep and its services.

### Item 3: Table of Contents

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## Item 4:      Advisory Business

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- A. Jemstep, Inc. (“Jemstep”) is a privately owned Silicon Valley-based business founded in 2008. Our core mission is to provide personalized online services to individual investors looking for independent, actionable investment advice regardless of their level of sophistication or the size of their portfolios.

Jemstep has developed and patented an innovative investment ranking engine that makes customized investment recommendations based on an investor’s personal circumstances, including financial goals, investment horizon, risk tolerance and other important metrics of evaluation.

Users can access Jemstep’s services at [www.jemstep.com](http://www.jemstep.com), where they are asked several questions about their investment goals, financial situation, time horizon and risk tolerance. Users are also asked to securely link their brokerage accounts. Jemstep then identifies an appropriate target asset allocation for each user, and guides the user as to which funds to buy, sell and hold – in which accounts - in order to transition to the target asset allocation. Jemstep also provides ongoing alerts and recommendations to help users periodically rebalance their portfolios, ensuring they remain on track with their target allocation.

To accomplish this, Jemstep leverages two powerful tools:

- Carefully-designed portfolio asset allocations using 14 carefully chosen asset classes: Jemstep's asset classes and asset allocations are selected based on their historical growth, their historical risk and their historical tendency to fluctuate independently of one another. The goal is to apportion an Investor’s investments across 14 asset classes that work well together to reduce the overall volatility of a portfolio, while providing a strong overall growth rate. Over time, Jemstep will recommend rebalancing the portfolio to optimize returns. Jemstep will also adjust the allocation as the investor’s financial circumstances or ability to absorb risk change. For example, as the investor grows closer to retirement, Jemstep automatically adjusts the investor’s target asset allocation and action plan accordingly.
- Our proprietary ranking engine for mutual funds and ETFs: Jemstep's patented engine determines which funds in any given asset class are the right ones for the investor to own. It tracks over 50 different parameters for thousands of mutual funds and ETFs every day. For each fund, it evaluates attributes like risk-adjusted returns, volatility, tax efficiency, performance in up and down markets, fees and many others. This knowledge allows Jemstep to always recommend high-quality funds for the investor in each asset class.

The Company's principal owner is Michael Blumenthal, a US citizen who operates as Chairman and joint CEO of the business.

- B.** Jemstep's primary investment advisory service involves recommending the appropriate asset allocation and fund selection within each asset class based on the investor's financial goals and situation. Our technology establishes an appropriate asset allocation for investors based on their return goals, risk tolerance and special considerations, and also guides them on which specific funds to buy, sell or hold within each asset class in order to populate their target allocation with the best available choices. Importantly, Jemstep takes cognizance of the investor's existing portfolio and helps manage the transition - through a series of actionable steps - from the existing portfolio to a more optimized portfolio which is better suited to the individual investor. Our technology utilizes the information available to consider tax consequences and other transactional costs associated with specific buys and sells to guide the investor. The onus is on the investor to execute the recommendations after due consideration of the recommendations and related information.

In addition, investors are guided as to how to rebalance their portfolios periodically, ensuring they stay on track with their target asset allocation and maximize their chances of meeting their investment. Users are also sent alerts as to important recommendations for optimizing their portfolios from time to time. Investors are guided to more conservative portfolios as they age and their circumstances change. This is commonly referred to as a glide path.

Jemstep's services are tailored to the individual needs of its clients. In order to obtain investment recommendations related to asset allocation and fund selection, users are required to provide certain information. This is achieved by directing users to answer various questions and provide basic information, including, among other things, age, risk tolerance, goals and investment objectives. Based on the answers provided, Jemstep makes investment recommendations that are tailored to the user's profile. Jemstep employs its own proprietary methodology and technology in making its investment recommendations.

- C.** Jemstep does not participate in any wrap fee programs.
- D.** Jemstep does not manage client assets and does not have custody over the assets of any user, nor does it exercise discretionary authority over any user's account. Jemstep does not execute trades for users. A user must make an independent determination of whether to follow any recommendation made by the website, and must make its own arrangements for execution of any desired trades.

## Item 5: Fees and Compensation

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- A. Jemstep provides a set of services which are free (“basic services”), and other premium services for which a fee will be charged (“premium services”). A full list of the free services and the premium services is available on the website. The following terms apply to fees for premium services:

- (i) A monthly subscription fee is charged for the premium services, the amount of which depends on the value of assets associated with each user’s account. The monthly subscription fees and corresponding value of assets are as follows:

Assets	\$0 -\$25,000	\$25,001 - \$150,000	\$150,001 - \$300,000	\$300,001 -\$600,000	\$600,001 and above
Fee	free	\$17.99 p/m	\$29.99 p/m	\$49.99 p/m	\$69.99 p/m

- (ii) For the purposes of this Section, *unless otherwise indicated*, (i) “assets” are defined as the total value of the accounts linked to Jemstep’s service, including accounts that are imported automatically and/or accounts that are entered manually on the website; (ii) a “billing cycle” is defined as each 30 day period from the date a user registers for the premium services.

- (iii) No fees are deducted from the user’s account. Users who wish to purchase the premium services are asked to provide their credit card information on the website, and are billed by Jemstep for services rendered.

- (iv) Jemstep initially charges for three billing cycles in advance (“initial subscription period”). Subscription fees paid for the initial subscription period are non-refundable. After the initial subscription period, users are billed in advance for each single billing cycle.

- (v) Users may cancel their subscription at any time after the initial subscription period. The termination or cancellation of a subscription for any reason will only take effect at the end of the current billing cycle and no prorated refunds will be given. In the event of said cancellation, access to the premium features will only be switched off at the end of the current billing cycle.

- (vi) If during any billing cycle a user adds another account or increases the assets in an existing account linked to the Jemstep service, whether automatically or manually, resulting in a higher subscription fee being applicable, Jemstep will modify the subscription and the user will be billed the higher subscription fee in that billing cycle on a prorated basis. The user will be notified of the higher subscription rate at the time of adding the account and/or increasing the assets in an existing account (as the case may be).

(vii) If on any given date (“the trigger date”) the value of assets in an existing account/s:

-increases solely due to upward market movements, which would result in those assets triggering a higher subscription fee, Jemstep agrees not to bill the user at the higher subscription fee for a period of 90 days (“grace period”) from the trigger date. After the grace period, provided the value of assets still remains at the level applicable to a higher subscription fee, Jemstep will modify the subscription and the user will be billed the higher subscription fee, effective from the day following the expiry of grace period. The new subscription fee will be prorated for periods of less than a full billing cycle;

- decreases solely due to downward market movements, which would result in a lower subscription fee being applicable, Jemstep will modify the subscription and charge the lower subscription fee with effect from the next billing cycle, provided the lower subscription fee remains applicable at that time given the concurrent value of assets..

(viii) If a user adds another account or increases the assets in an existing account linked to the Jemstep service, whether automatically or manually, during any grace period referred to above, resulting in a higher subscription fee being applicable, the grace period will fall away and the user will be billed the subscription fee applicable to the total aggregate value of assets linked to his Jemstep account at that time. The new subscription fee will be prorated for periods of less than a full billing cycle.

(ix) If a user deletes an account or decreases the assets in an existing account linked to the Jemstep service, whether automatically or manually, resulting in a lower subscription fee being applicable, Jemstep will modify the subscription and the user will be billed the lower subscription fee with effect from the following billing cycle. Modified subscription rates for account decreases caused by any reason whatsoever will take effect from the billing cycle following the decrease and no prorated adjustments will be made for the billing cycle in which the decrease occurred.

(x) Jemstep may run promotions or introduce discounts and special offers from time to time.

B. No fees are deducted from our users’ account assets. Users who wish to purchase the premium services are asked to provide their credit card information on the website, and are billed by Jemstep for services rendered.

C. Clients may incur certain other costs and fees billed by third parties. These relate to brokerage costs charged by their brokers for the execution of trades, and in some

circumstances custodian fees. Jemstep does not execute trades for users, and users must therefore make their own arrangements for execution of any desired trades at their own cost.

- D. Jemstep charges fees in advance as outlined in Section A above.
- E. Neither Jemstep nor any of its representatives accept compensation for the sale of securities or other investment products. Recommendations, search results, rankings and comparisons are fully comprehensive and entirely objective, and are not based on any arrangement or relationship that Jemstep may have with any service or product provider. Sponsored listings are not entertained.

## **Item 6:      Performance-based Fees**

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Neither Jemstep nor any of its representatives charge any performance-based fees.

## **Item 7:      Types of Clients**

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Jemstep's services are aimed at individual investors who seek independent, objective and actionable advice to help them make better investment decisions and achieve their financial goals. It is anticipated that our clients will comprise a broad range of individual investors, ranging from newcomers to more sophisticated and experienced investors.

To access our services (both free and premium services) the user is required to set up an account so that we can maintain privacy and security in relation to the user's confidential information and save the user's profile for future visits to the website.

In order to register an account on Jemstep, a user is required to provide Jemstep with the following information:

- Name
- E-mail address
- Zip Code
- Password (created by the user)

The user is also required to acknowledge agreement with our Terms of Use and Investor Agreement which are available on the website.



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

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### A. Methods of analysis

#### *Portfolio selection*

Jemstep's approach for building investment portfolios is based primarily on the tenets of Modern Portfolio Theory. Our asset allocations make use of up to 14 carefully chosen asset classes. Our asset classes and asset allocations are selected based on their historical growth, their historical risk and their historical tendency to fluctuate independently of one another. The goal is to carefully apportion the investor's investments across 14 asset classes that work well together to reduce the overall volatility of a portfolio, while providing a strong overall growth rate.

#### *Fund selection*

Jemstep's patented engine determines which funds in any given asset class are the right ones for the particular investor. It tracks over 50 different parameters for thousands of mutual funds and ETFs every day. For each fund, it evaluates attributes like risk-adjusted returns, volatility, tax efficiency, performance in up and down markets, and many others. The main sources of information used by Jemstep in making its fund selection include detailed historical and current information, and performance and related data.

Jemstep's rankings and recommendations cannot be interpreted as a guarantee of future performance. Investing in securities involves risk of loss that clients should be prepared to bear. For a more detailed explanation of the risks involved, see Items 8B and 8C.

### B. Material risks

- Jemstep conducts its analyses primarily using detailed historical information. As with any investment, a fund's past performance is no guarantee of its future success.
- Jemstep relies on third parties for the provision of market statistics, fund details, performance and related information and although these parties are reliable and reputable, there may be inaccuracies or discrepancies in the information that is beyond Jemstep's control.
- Jemstep basis its rankings on information provided by the user, and relies on the user to provide accurate information that appropriately describes the user's preferences, goals and related information. If the user provides inaccurate information, this will impact the relevance of the rankings to the user.

C. Material risks specific to types of securities

Jemstep's services as at public beta launch will focus on mutual funds and ETF's.

There is no guarantee that a mutual fund or ETF (collectively, "fund") will achieve its objective. The fund's share price fluctuates, which means you could lose money by investing in the fund. Funds may differ from one another in terms of investment style, objectives, management, geographical markets, fund holdings and many other factors. For a full appreciation of the risks inherent in any specific fund, clients should read the prospectus of the fund in question.

Below is a general summary of principal risks related to a fund, but this is not intended to be exhaustive or to replace the risks detailed in any fund prospectus:

- *General:* As with any investment, you could lose all or part of your investment in the fund, and the fund's performance can trail that of other investments.
- *Asset class risk:* Securities in the fund's portfolio or underlying index may underperform in comparison to the general securities markets or other asset classes.
- *Equity Securities risk:* Equity securities (stocks) are subject to changes in value and their values may be more volatile than other asset classes. Stocks generally fluctuate in value more than bonds and may decline significantly over short time periods. The value of a stock in which the fund invests may decline due to general weakness in the stock market or because of factors that affect a company or a particular industry.
- *Issuer Risk:* Fund performance depends on the performance of individual securities in which the fund invests. Changes to the financial conditions or credit rating of an issuer of those securities may cause the value of the securities to decline.
- *Market risk:* Funds can lose money over short periods due to short-term market movements and over longer periods during market downturns.
- *Market trading risks:* Funds may face numerous market trading risks, including potential lack of an active market for the fund shares, losses from trading in secondary markets, and disruption in the creation/redemption process of the fund.
- *Non-diversification risk:* A fund may invest a large portion of its assets in securities issued by or representing a small number of issuers. As a result, the fund's performance may depend on the performance of a small number of issuers.
- *Passive investment risk:* Funds that track an index/passive funds are not actively managed and do not attempt to take defensive positions in declining markets.
- *Active management risk:* Funds that are actively managed may be subject to the risk that the investment adviser's judgments about the attractiveness, value, or potential appreciation of the fund's investments may prove to be incorrect. If the securities selected and strategies

employed by the fund fail to produce the intended results, the fund could underperform other funds with similar objectives and investment strategies.

- *Tracking error risk:* Funds that track an index may not replicate the index exactly and the performance of the fund may diverge from that of the underlying index.
- *Investment style risk:* Different investment styles tend to shift in and out of favor, depending on market conditions and investor sentiment. A fund's approach to investing (eg growth or value) could cause it to underperform other stock funds that employ a different investment style.
- *Market capitalization risk:* Some funds invest in small-cap companies. These funds may be more volatile than funds that focus on securities issued by larger companies. Smaller companies are typically more sensitive to changes in overall economic conditions and their securities may be difficult to trade.
- *Foreign investing risk:* Some funds invest in foreign markets. In such cases, there is the risk that the fund's investments in foreign securities may be adversely affected by political and economic conditions overseas, reduced liquidity, or decreases in foreign currency values relative to the U.S. dollar.
- *Derivatives risk:* To the extent a fund uses futures and options, it is exposed to additional volatility and potential losses.
- *Model risk:* To the extent that Jemstep recommendations are based on an investment model that may not accurately reflect future investment patterns, investors may not achieve the projected returns.

## Item 9:      **Disciplinary Information**

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- A. Neither Jemstep, nor any of our employees, has had any civil or criminal actions brought against them.
- B. Neither Jemstep, nor any of our employees, has had any administrative proceedings before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority.
- C. Neither Jemstep, nor any of our employees, has had any proceedings before a self-regulatory organization.

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

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- A. No employees are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. No employees are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator or a commodity trading advisor.
- C. The Company does not have arrangements or relationships with any related parties.

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

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- A. Jemstep has adopted a Code of Ethics (the “Code”) consistent with the Investment Advisers Act of 1940. The Code establishes and reinforces a standard of business conduct that is expected of persons associated with Jemstep, and provides specific guidance related to avoiding actual or apparent conflicts of interest. The Code emphasizes certain governing principles Jemstep personnel should always be mindful of in the course of their work, including the duty at all times to place the interest of clients first, the protection of material non-public information, and the obligation to report violations of the Code of Ethics and any applicable laws. Upon request, Jemstep will provide a copy of the Code to clients and prospective clients. To request a copy of the Code please email [info@jemstep.com](mailto:info@jemstep.com).
- B. Neither Jemstep, nor any of our employees, recommends to clients, or buys or sells for client accounts, securities in which we have a direct material financial interest. Jemstep does not have investment authority, discretionary or otherwise, to purchase any securities on behalf of users. Once a recommendation or ranking has been generated by the website, it is in the discretion of the user whether or not to enter into a transaction based on any such recommendation, when to enter into any such transaction and which stockbroker to use for the execution thereof. However, Jemstep’s officers and employees could conceivably purchase securities for their own accounts which may, in certain instances, be the same securities as those recommended to users, including shares in the same mutual fund. The securities which are recommended to clients are highly personalized and are based on each user’s profile. Any such purchase of the same securities would, accordingly, be coincidental.
- C. Jemstep does not buy securities for its own account. Therefore, no potential conflict of interest exists at the firm level. Employees may own funds which are also held by clients, but since client portfolios are based on the methodologies listed above, including the individual fund recommendations of the Jemstep ranking engine, which is objective, no actual conflict

arises and any common investments would be coincidental and are not at the prejudice of our clients. In addition, client trades are primarily limited to mutual funds and ETF's, which are highly liquid and would not create conflict of interest situations. Investments made for its clients are generally of a long-term nature and short-term trading is not encouraged.

- D. As mentioned in Item 11C, Jemstep does not buy securities for its own account. Therefore, no potential conflict of interest exists at the firm level. Employees may desire to trade securities that the firm is trading for clients but, for the reasons described in Item 11C, no actual conflict arises and any common investments are not at the prejudice of our clients.

## Item 12: Brokerage Practices

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- A. Jemstep does not select or recommend broker-dealers for client transactions. As Jemstep does not have the discretionary authority to determine the broker-dealer to be used or the commission rates to be paid, clients are responsible for their own broker-dealer transactions, including the commissions payable. Please refer to Item 11 for further detail.

Jemstep has joined various affiliate programs through which broker-dealers may advertise on the Jemstep website. When a user clicks on a banner or similar advertisement on the Jemstep website, Jemstep is paid a cost-per-click (CPC) fee in accordance with the affiliate program. The affiliate programs have no bearing on the advice or recommendations given on the Jemstep website. Search results, rankings and comparisons on Jemstep are entirely objective, and are not based on any arrangement or relationship that Jemstep may have with any service provider. Sponsored listings are not entertained and there are no conflicts of interest that arise.

1. Research and Other Soft Dollar Benefits. Jemstep does not pay for any products, research or services from any brokers.
  - a. We do not use client brokerage commissions in order to obtain research or other services.
  - b. Since we do not use client brokerage commissions to obtain research or other services, we have no incentive in recommending or selecting a specific broker-dealer to clients. Clients are responsible for selecting their own broker-dealer to execute trades.
  - c. We do not cause clients to pay commissions higher than those charged by other broker-dealers in return for soft dollar benefits.

- d. No soft dollar benefits are received in respect of any client accounts with Jemstep, and no client accounts are given preferential treatment above others with respect to these types of benefits.
  - e. Jemstep does not pay for any products, research or services with client brokerage.
  - f. Jemstep does not direct commissions to broker-dealers in return for soft dollar benefits.
- 2. Brokerage for Client Referrals. Jemstep does not receive any referrals for selecting any brokerage as broker-dealer.
- 3. Directed Brokerage.
  - a. As outlined above, Jemstep does not have investment authority, discretionary or otherwise, to purchase any securities on behalf of users. Once a recommendation or ranking has been generated by the Jemstep website, it is in the discretion of the user whether or not to enter into a transaction based on any such recommendation, when to enter into any such transaction and which stockbroker to use for the execution thereof. We do not recommend, request or require that any client direct Jemstep to execute transactions through a specified broker-dealer.
- B. Following from Item 12A, Jemstep does not aggregate the purchase or sale of securities for client accounts. Clients may lose the possible advantage of lower commissions that are sometimes derived through the aggregation of orders for multiple clients but have the benefit of executing through their own designated broker-dealer.

### **Item 13:     Review of accounts**

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- A. Jemstep does not review client accounts nor do we provide reports on specific accounts. Clients who have registered for the Jemstep services have the ability to view all their brokerage accounts online at their convenience, and based on Jemstep recommendations from time to time, take appropriate action at their discretion.
- B. Jemstep may from time to time send alerts, emails and other notifications to clients if our system detects particular market movements or conditions that may be relevant to the client based on the client's preferences as indicated to us via the website. Jemstep also

helps users rebalance their accounts periodically so that they remain within the asset class parameters of the target asset allocation.

#### **Item 14: Client referrals and other compensation**

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- A. Neither Jemstep, nor any of our employees, receives any economic benefit, sales awards or other prizes from any outside parties for providing investment advice to our clients.
- B. Jemstep does not directly or indirectly compensate any person for client referrals.

#### **Item 15: Custody**

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Jemstep does not have custody of client funds. Client funds are held under the custody of the custodian selected by the client.

Clients should confirm the frequency of account statements directly with their custodian. These statements should be reviewed carefully.

#### **Item 16: Investment Discretion**

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Jemstep does not have discretionary authority to manage securities accounts on behalf of clients.

#### **Item 17: Voting Client Securities**

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Jemstep does not have authority to vote client securities. Client securities will be held in accordance with the terms and conditions of the broker-dealers selected by clients. Proxies or other solicitations will not be available through Jemstep. For information on whether clients will receive proxies or other solicitations directly from a custodian, transfer agent or other party, clients should check directly with their broker-dealers.

#### **Item 18: Financial Information**

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- A. Jemstep does not require prepayment of fees longer than six months in advance.
- B. There are no financial conditions that are likely to impair Jemstep's ability to meet our contractual commitments to clients.

C. Jemstep has not been the subject of a bankruptcy petition.