



# DESCHUTES

INVESTMENT CONSULTING, LLC

Deschutes Investment Consulting LLC  
Form ADV Part 2A—Disclosure Brochure for Individual Clients  
March 29, 2013

Deschutes Investment Consulting LLC  
200 SW Market Street, Suite 550  
Portland, OR 97201  
(503) 224-3700  
[www.deschutesinvestment.com](http://www.deschutesinvestment.com)

This brochure provides information about the qualifications and business practices of Deschutes Investment Consulting LLC. If you have any questions about the contents of this brochure, please contact MacGregor Hall, our Chief Compliance Officer at (503) 548-2101. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Registration as an investment advisor does not imply any certain level of skill or training.

You can find more information about us at the SEC’s website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

This item identifies and discusses only those material changes that have occurred since the last update of our firm brochure, which was dated March 29, 2012. Since that date:

- Because certain aspects of our services depend on the type of client (such as our fee schedule or brokerage practices), we have separated our firm brochure into two versions—one for institutional clients and one for individual clients. This version is for individual clients.
- Mike Walters joined our firm as a Retirement Plan Consultant.
- David Foster is no longer employed by our firm.

## Item 3—Table of Contents

Item 2—Material Changes .....	2
Item 3—Table of Contents .....	3
Item 4—Advisory Business.....	4
Item 5—Fees and compensation .....	6
Item 6—Performance-Based Fees and Side-by-Side Management.....	8
Item 7—Types of Clients .....	9
Item 8—Methods of Analysis, Investment Strategies and Risk of Loss .....	10
Item 9—Disciplinary Information .....	12
Item 10—Other Financial Industry Activities and Affiliations.....	13
Item 11—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	14
Item 12—Brokerage Practices .....	15
Item 13—Review of Accounts.....	18
Item 14—Client Referrals and Other Compensation .....	19
Item 15—Custody .....	20
Item 16—Investment Discretion.....	21
Item 17—Voting Client Securities .....	22
Item 18—Financial Information .....	23

## **Item 4—Advisory Business**

### **The Company:**

Deschutes Investment Consulting, LLC (“we”, “us”, or “DIC”) has offered professional investment advisory and management services since we were formed in 2011. We have been registered with the SEC since 2011. We are 100% owned by MacGregor Hall, our President.

### **Investment Advisory Services**

We provide our clients with investment management and advisory services on both a discretionary and non-discretionary basis. These services consist of:

### **Wealth Management Services**

We provide a full-range of wealth management services to our individual clients and participants in our client retirement plans. In addition to investment management and quarterly performance monitoring, we provide you with advice, assistance and education on topics like:

- insurance
- estate planning
- retirement planning
- college planning
- wealth transfers between generations and to charitable organizations.

### **Tailored Advisory Services**

All of our clients may impose restrictions on investing in certain securities, industries or sectors. You must advise us of any such restrictions in writing.

Our relationships with our corporate and individual clients are in-depth and personalized. We tailor our advisory services to meet our clients’ particular needs. For corporate retirement plan clients, we work with you to develop a cost-effective and efficient retirement program that is intended to serve in the best interest of your plan participants.

For our individual clients, we will work directly with you and your other advisers to build and protect your wealth over the long term. We ask you to complete an investor questionnaire to assist us in developing investment objectives that reflect your unique goals, needs, risk tolerance and time horizon. You may have multiple accounts with us, and each may have different investment objectives. We offer to review your questionnaire with you at least annually to be sure the objectives continue to meet your particular needs and goals.

In this process, we also assist you in developing appropriate asset allocation objectives. However, market volatility can sometimes change asset values. When this happens, the values of your assets may become somewhat inconsistent with your desired allocation objective. If we think it is appropriate, we will rebalance your portfolio to align with your allocation objectives.

Rebalancing your portfolio can lead to additional trading costs.

### **Assignment of Investment Management Agreements**

Agreements may not be assigned without client consent.

### **Non-Managed Investments**

In rare circumstances we will allow clients to transfer securities of their choosing into accounts that we oversee. When clients do so and instruct us not to sell these investments, we do not provide any ongoing advice or oversight of these investments. We allow clients to hold these Non-Managed Investments purely as a convenience. These Non-Managed Investments are identified in writing to the client and the client is advised they, not Deschutes Investment Consulting, LLC are responsible for oversight and selling the investments. We do not charge an advisory fee on Non-Managed Assets. Your account Custodian might charge fees on these assets.

### **Termination of Agreement**

Our agreement may be terminated by either party upon ninety (90) days prior written notice. DIC bills for fees in advance of each quarter. In the event of a termination that takes effect at any time other than the last day of the quarter, the fee charged by Deschutes for such quarter will be prorated from the first day of the quarter to the effective date of the termination.

### **Assets Under Management**

As of March 1, 2013, we manage approximately \$511,000,000. Of this amount, approximately \$72,000,000 is on a discretionary basis and 439,000,000 on a non-discretionary basis.

## Item 5—Fees and Compensation

### Amount of Our Fees

We typically calculate investment advisory fees as a percentage of the assets we manage for you. Fees are generally negotiable if the value of all your related accounts with us is more than \$10 million.

We reserve the right to negotiate your fees in other situations. Some clients pay more or less than others depending on certain factors, including the type and size of the account, the range of additional services provided to the client, and the total amount of assets managed for a group of related clients. Your fee is specified in your agreement with us.

Our standard fee schedule is stated below (fees are on an annual basis):

1.00% (100 basis points) on the first \$1 million of assets  
0.75% (75 basis points) on assets between \$1 and \$2 million  
0.50% (50 basis points) on assets between \$2 and \$4 million  
0.25% (25 basis points) on assets over \$4 million

*Minimum Fee.* We may charge you a minimum fee. If we do charge a minimum fee, the minimum fee is \$3,000 per year.

### Payment of Our Fees

We deduct investment management fees directly from your account at the beginning of each quarter, unless we both agree otherwise. If your agreement begins during a quarter, we will prorate the fee you pay for the initial partial quarter, based on the number of days from the beginning of your agreement until the end of the initial quarter. We will mail you a copy of your fee invoice upon your request.

On your request, we will deduct our entire fee from one or more related accounts rather than proportionally from all your related accounts. If you do not have enough cash in your account to pay our fee, we may sell some of your account assets to pay the fee.

Our client agreement may be terminated on 30 days' written notice by either you or us. If you pay fees in advance and if your agreement with us terminates during a quarter, we will refund a pro rata portion of the fee you paid for that quarter, based on the number of days between the end of the 30-day notice period and the end of the quarter.

Other than at the beginning and termination of a client relationship, we do not make adjustments to your quarterly fee due to assets you add or withdraw during a quarter.

### Other Fees

If you have mutual funds or ETFs in your portfolio, you will incur fees in addition to our fees. For example, you may incur a commission or transaction fee when the mutual fund or ETF is purchased, and you will incur an annual management fee payable to the manager of the fund, neither of which is shared with us. If a fund also imposes sales charges, you may pay an initial or deferred charge. These fees and expenses are described in each fund's prospectus. When considering an investment in a mutual fund or ETF, we use a no-load, open-end fund when appropriate. We evaluate the relative annual costs as a part of our decision process. You could invest in a mutual fund or ETF directly, without our services. In that case, you would not receive the services we provide, which are designed in part to help you determine which, if any, mutual funds and ETFs are best suited to your financial condition and objectives. You should review the fees charged by the mutual fund and/or ETFs and our fees to fully understand the total amount of fees you will pay and to evaluate the advisory services we provide.

All clients (whether or not they have mutual funds or ETFs in their portfolio) will also incur brokerage and other transaction costs, as discussed below in Item 12.

#### **Compensation from Sales of Securities**

Deschutes Investment Consulting and its employees occasionally accept compensation for the sale of securities or other investment and insurance products, including asset-based sales charges or service fees from the sale of mutual funds.

This type of compensation is separate from and above any advisory or financial planning fees you may pay. You may purchase products from other providers if you choose.

#### **Conflict of Interest in Accepting Compensation from Sale of Securities**

There is a conflict of interest for Deschutes Investment Consulting and our employees to recommend products that offer compensation separate and above any advisory or financial planning fees you may pay. We mitigate this conflict through our procedures to review client accounts relative to the client's financial situation to ensure the investment service or product provided is appropriate. Further, we are committed to our obligation to adhere to the Advisor's Code of Ethics and to ensure that we fulfill our fiduciary duty to our clients.

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

DIC and its employees do not accept "performance-based fees" (fees based on a share of capital gains on or capital appreciation of your assets).



## **Item 7—Types of Clients**

We generally provide advice to the following types of clients:

- Corporate pension and profit sharing plans
- Individuals, including their trusts, estates, individual retirement accounts (IRAs), and self-directed 401(k) accounts.
- Endowments and other charitable organizations
- Corporations and other businesses

### **Minimum Account Size**

We generally require a minimum of \$500,000 to open an individually managed account (or group of accounts). We reserve the right to waive these minimum requirements at our discretion.

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

### General

We believe that asset class diversification is the key determinant for long term capital preservation and growth. We will work with you to develop and refine your investment objectives to assist us in making investing decisions for your portfolio.

We invest our clients' assets primarily in low-cost, institutional class, no-load, open-ended mutual funds; ETFs, and Separately Managed Accounts. Our core expertise is in combining multiple fund managers in order to build a diversified portfolio matching your risk parameters. We favor ETFs, open-ended mutual funds, and separately managed accounts for several reasons:

- Legally required diversification within a fund (per the '40 Act), reducing risk of loss that comes from concentration
- Lower fees than many other types of structures
- Daily liquidity
- Many institutional, low-cost investments are available on the platform we use for most of our accounts (Charles Schwab & Co., Inc. (Schwab))
- Access to many types of strategies beyond traditional stocks and bonds.

### Manager and Fund Selection Process

We utilize a four step Manager and Fund Selection Process with final manager selection by our Investment Committee. The selection process begins with an initial screen where we apply the following criteria:

- Manager/fund performance should be in the top 50% of peer group over a complete market cycle
- The manager/fund expense ratio should be less than the category average
- The manager/fund management tenure should be commensurate with fund performance

The results from the initial screen are subject to the following criteria:

- The manager/fund must be open to new investors
- There must be no front or back-end loads, or redemption fees
- The manager/fund must be available at our preferred custodian

The results from this second level screen are further subject to the following criteria:

- The historical performance must have a high correlation to the appropriate benchmark index
- The asset allocation of the fund must have a high correlation to the appropriate benchmark index
- The fund/manager must exhibit the following characteristics over a complete market cycle:
  - Positive alpha
  - Below average portfolio turnover
  - Below average beta

- Below average standard deviation
- Above average Sharpe ratio

The top 10 funds are put through a final screen where the following features of each fund are further reviewed and a final selection is made by the investment committee:

- Asset allocation correlation with benchmark
- Concentration of portfolio
- Style drift
- Fund ownership
- Management stability

### **Private Investment Funds**

We may provide investment advice on private investment fund to certain qualified clients. Our role relative to the private investment fund shall be limited to its initial and ongoing due diligence and investment monitoring services. If a client becomes a private fund investor, the amount of assets invested in the fund(s) shall be included as part of “assets under management” for purposes of calculating our investment advisory fee. DIC clients are under no obligation to consider or make an investment in a private investment fund.

#### **Risks Associated with Our Primary Client Investments**

For all of the above investment strategies, including mutual funds, clients and prospective clients should note carefully that investing in securities involves risk of loss that clients should be prepared to bear. For example, most equity mutual funds have very high correlation to the broad stock market and should be expected to lose as much or more than the stock market in any given period. In 2008, the S&P 500, a broad measure of the US stock market, fell 37%, and many mutual funds lost even more. Any strategy involving frequent trading can negatively affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

Private investment funds generally involve additional risk factors including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund’s offering documents, which will be provided to each client for review and consideration. Unlike other liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

## **Item 9—Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management.

DIC has no legal or disciplinary events to report.

## Item 10—Other Financial Industry Activities and Affiliations

We are obligated to disclose if we, any of “supervised persons” (meaning our employees and independent contractors), or any of our affiliates are involved in other financial industry activities, such as those of a broker-dealer, commodity pool operator, or a futures commission merchant. We are also obligated to disclose if we receive compensation from other advisors for recommending or selecting those advisors for you.

DIC is not registered as a broker-dealer, futures commission merchant, commodity pool operator or commodity trading advisor.

Registered Investment Advisor Representatives of DIC may be Registered Representatives of Financial Services Int’l Corp, a registered broker-dealer or Symetra Securities, Inc., a registered broker dealer. In their capacity as Registered Representatives of these broker-dealers, our Investment Advisor Representatives can transact security purchases and sales of stocks, bonds, mutual funds, ETFs, annuities, insurance contracts, limited partnerships, and alternative investments. Financial Services Int’l Corp and Symetra Securities, Inc. pay sales commissions to their Registered Representatives for transacting that type of brokerage business.

Registered Investment Advisor Representatives may be agents for various insurance companies. As such, these individuals are able to receive separate, yet customary commission compensation resulting from implementing product transactions on behalf of advisory clients. Client, however, are not under any obligation to engage these individuals when considering implementation of advisory recommendations. The implementation of any or all recommendations is solely at the discretion of the client.

The receipt of sales-based compensation by our Investment Advisor Representatives when they are acting in their individual capacity as an insurance agent or Registered Representative of a broker-dealer creates a financial incentive for them to recommend investment products that generate sales commissions paid to them. This financial incentive can create a potential conflict of interest where the interests of the Investment Advisor Representative are not aligned with yours.

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

The DIC Code of Ethics is based on the principle that supervised persons, access persons, and administrative staff members owe a fiduciary duty to our clients for which DIC serves as an advisor. This Code is to protect the interests of both clients and advisors by demanding that advisory personnel perform their duties with complete propriety and do not take advantage of their position. Accordingly, DIC employees must avoid activities, interests, and relationships that might interfere or appear to interfere with making decisions in the best interest of our advisory clients. Failure to abide by this Code can result in disciplinary action, including termination of employment. A complete copy of our Code of Ethics is available to our clients or prospective clients upon request.

Employees of DIC may occasionally purchase or sell for their own personal accounts securities held or traded in DIC client accounts. Trades in the personal accounts may happen at times close to the times trades happen in the client accounts. To avoid any potential front-running of client trades, a record of all personal trades by Access Persons is collected quarterly and reviewed by DIC's Chief Compliance Officer. If evidence of front-running is found, the employee may be forced to disgorge any profits. As a practical matter, most client trades involve mutual funds (for which front-running is not a concern), and Access Persons are in general not active traders in individual securities.

## Item 12—Brokerage Practices

### **The Custodian and Brokers We Use**

DIC does not maintain custody of your assets that we manage although we may be deemed to have custody of your assets if you give us authority to withdraw assets from your account. Your account must be maintained in an account at a “qualified custodian”, generally a broker-dealer or a bank. Our management discretion for individual clients generally includes the selection of the securities to be bought or sold, the amount of securities to be bought or sold, the custodian and broker to be used, and the commission to be paid. We consider many factors, including execution capabilities, commission rate, reputation and access to the markets for the securities being traded, financial responsibility, responsiveness to us, any research-related products and services provided to us.

As a practical matter, nearly all individual DIC accounts are maintained in an individual account at Schwab and client trades are executed at Schwab. When our client accounts are maintained at another broker, we will execute trades through the individual Client’s broker.

Schwab generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. In addition to commissions Schwab charges you a flat dollar amount as a “prime broker” or “trade away” fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for our client accounts maintained at Schwab. We have a standard advisor commission and fee schedule with Schwab and other broker/ custodians, and thus cannot typically negotiate commissions on a trade-by-trade basis.

### **Products and Services Available to Us from Schwab**

Schwab Advisor Services is Schwab’s business serving independent investment advisory firms like us. They provide us and our clients with access to its institutional brokerage—trading, custody, reporting and related services—many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients’ accounts while others help us manage and grow our business. Schwab’s support services are generally available on an unsolicited basis (we don’t have to request them) and at no charge to us. Here is a more detailed description of Schwab’s support services:

**Services that Benefit You:** Schwab’s institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment

by our clients. Schwab's services described in this paragraph generally benefit you and your account.

**Services that May Not Directly Benefit You:** Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or some substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that: o provide access to client account data (such as duplicate trade confirmations and account statements); o facilitate trade execution and allocate aggregated trade orders for multiple client accounts; o provide pricing and other market data; o facilitate payment of our fees from our clients' accounts; and o assist with back-office functions, recordkeeping and client reporting.

**Services that Generally Benefit Only Us:** Schwab also offers services intended to help us manage and further develop our business. These services include:

- educational conferences and events
- technology, compliance, legal, and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers.

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits such as occasional business entertainment of our personnel.

### **Trade Execution**

DIC seeks best execution for client trades, but will not obligate itself to obtain the lowest commission or best net price on any particular transaction. DIC will not execute an order on any account that is preferential or materially adverse to any other DIC client account.

### **Trade Aggregation**

DIC is authorized in its discretion to aggregate purchases and sales made for one client account with purchases and sales in the same or similar securities for other client accounts. When transactions are so aggregated, the actual prices applicable to the aggregated transaction will be averaged, and the account will be deemed to have purchased or sold its proportionate share of the securities involved at the average price so obtained. Stock exchange regulations may, in certain instances, prevent the executing broker-dealer from delivering to the account a confirmation slip with respect to its participation in the aggregated transaction, and in such event, DIC will advise the client in writing of any purchase or disposition of securities for the



account with respect to any such aggregated transaction. DIC aggregates orders whenever a particular trade is appropriate, in DICs best judgment, for more than one client account at the same time. Occasionally, trades that occur on the same day in two different client accounts may not be aggregated, usually for timing reasons. The effect of this failure to aggregate may be higher commissions for both client accounts, and one account may receive a more favorable price than the other account.

## **Item 13—Review of Accounts**

All client accounts are reviewed at least once per quarter by the Client's Investment Advisory Representative to see if the Client's asset allocation is consistent with the Client's investment objectives and restrictions to consider whether any changes should be made to the client's portfolio. All accounts are reviewed by the investment committee when established and when changes are recommended.

We issue written reports to our clients each quarter. Our reports generally include a list of assets in your account, investment results, transaction history, and other statistical information. They are delivered in hard copy, via e-mail, in person, or through our secure client portal, depending on the client's preference.

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

Clients may be referred to DIC by an unaffiliated third party (as defined under the Investment Advisors Act of 1940). In certain instances, there may be a solicitation agreement between DIC and the third party. In exchange for referring clients to DIC, third party will be paid a percentage of the total advisory fee charged and collected from the referred client for as long as the agreement is in place. The agreement does not result in increased fees to the client and is not transferable.

## Item 15—Custody

DIC does not have direct custody for client funds or securities. Instead, a qualified custodian/broker (usually Schwab) has custody, and is responsible for sending monthly account statements, transaction reports, and year-end tax reports, directly to clients. Clients should carefully review those statements for inaccuracies. Statements can be delivered electronically, by mail, or both, depending on client preference.

Under government regulations, we are deemed to have custody of your assets if you authorize us to instruct Schwab to deduct our advisory fees directly from your account; however, Schwab maintains actual custody of your assets.

DIC also sends periodic performance reports, as more fully described in Item 13. Clients should compare the account statements they receive from the custodian with the reports they receive from DIC.

## **Item 16—Investment Discretion**

As part of our standard investment advisory contract, we accept discretionary authority to manage securities accounts on behalf of our clients including the power to purchase, sell and exchange securities and other instruments, exercise all rights conferred on the holder of such assets, and reinvest all proceeds. We observe investment limitations and restrictions that you provide to us in writing.

## Item 17—Voting Client Securities

You generally authorize us to vote proxies on your behalf in accordance with our written proxy voting policy. We vote proxies in accordance with the Client's best interest at all times.

We follow the below general voting guidelines, we:

- vote with a company's management on "routine" issues, such as uncontested elections of directors.
- vote in favor of most shareholder proposals that in our view will improve corporate governance. We vote against proposals inhibiting the same.
- carefully consider on a case-by-case basis proposed mergers and recapitalizations.

We may disregard our voting guidelines if we determine your best interest would be served by voting otherwise.

You may obtain a copy of our proxy voting policy and information on how we voted your securities by calling MacGregor Hall, our CCO, at (503) 548-2101 or by sending Mr. Hall a written request to the address on the cover page of this brochure.

### **Directed Voting**

All of our clients may direct our vote on specific matters, but they must do so in writing.

## **Item 18—Financial Information**

We must disclose any financial condition that could impair our ability to meet our contractual obligations to you. We must also disclose if we have been the subject of any bankruptcy proceeding within the last 10 years.

We have no such financial condition to disclose to you, and we have never been the subject of any bankruptcy proceeding.