



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

**Accredited Investors Inc.**

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This brochure provides information about the qualifications and business practices of Accredited Investors Inc. If you have any questions about the contents of this brochure, please contact us at 952-841-2222 or [Ross@Accredited.com](mailto:Ross@Accredited.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 Accredited Investors Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 105439.

## **Item 2 Material Changes**

Accredited Investors Inc. has no materials changes to report since our last annual update.

Clients will receive a summary of any material changes to this and subsequent Brochures by April 30<sup>th</sup> of each year. Furthermore, we will provide you with interim summary disclosures promptly when certain information becomes materially inaccurate.

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## **Item 4 Advisory Business**

Accredited Investors Inc. is a SEC-registered investment adviser located in Edina, Minnesota. Accredited Investors Inc. began conducting business in 1987.

Listed below are the firm's principal owners (i.e., those individuals and/or entities controlling 25% or more of this company):

- Ross Levin, Founding Principal and President
- Wil Heupel, Founding and Managing Principal

Accredited Investors Inc. offers the following advisory services to our clients:

### **WEALTH MANAGEMENT SERVICES**

We offer comprehensive, fee-only wealth management services for all areas of the client's financial life, including asset protection, investment planning, debt management, estate planning, retirement planning, and more. Our work is based on Ross Levin's book, *Implementing the Wealth Management Index*, published by Bloomberg Press. We have a strong emphasis on the link between money and values. Our process is client focused and collaborative, where the client takes an active role in the decision making process. Each client has a dedicated team of advisors who work with them to meet their individual wealth management needs.

In general, our wealth management services cover any or all of the following areas:

**ASSET PROTECTION** covers wealth management strategies that intend to preserve an individual's wealth and protect it from potential risks. This consists primarily of various types of insurance: life insurance, long-term care insurance, property and casualty insurance, and medical insurance.

**DISABILITY & INCOME MANAGEMENT** focuses on planning for income and taxes. This consists of protecting future income, analyzing current and future cash flow objectives and needs, and income tax planning.

**DEBT MANAGEMENT** is focused on tracking and analysis of personal debt and net worth. Personal debt is typically divided into home loans, such as mortgages and home equity lines of credit, personal loans, and business debt.

**ESTATE PLANNING** consists of strategic planning for asset transfer at death as well as the tracking of any documents that may be relevant to an individual's estate. It also involves charitable planning and gifting strategies. This includes beneficiary designations, legal documents such as trusts and wills, and the assignment of legal representatives.

**INVESTMENT PLANNING** is concerned with the ownership and maintenance of any assets reflected on an individual's balance sheet as well as the appropriate investment management for the individual's portfolio of assets. This includes individual savings, managed investment accounts, qualified retirement plans, business ownership, home ownership, and non-traditional assets.

### **INVESTMENT ADVISORY SERVICES**

Our firm provides continuous advice to clients regarding the investment of client funds reflecting the individual needs of the client. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, we develop a client's personal investment policy and create and manage a portfolio based on that policy. During our data-gathering process, we determine the client's individual objectives, time horizon, risk tolerance, and liquidity needs. As appropriate, we also review and discuss a client's prior investment history, as well as family composition and background.

Our investment recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company and will generally include advice regarding the following securities: *Mutual Funds, Exchange Traded Funds, Closed End Funds, Individual Equity Securities, and Individual Fixed Income Securities.*

Because some types of investments involve certain additional degrees of risk, they will only be implemented/recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity, and suitability.

## **Amount of Managed Assets**

As of 12/31/2014, we were actively managing \$1,406,431,596 of clients' assets on a discretionary basis plus \$39,836,061 of clients' assets on a non-discretionary basis.

## **Item 5 Fees and Compensation**

Accredited Investors Inc. receives no commissions, referral fees, or expense reimbursements from any of our recommendations. Our fees are charged based on a percentage of assets typically beginning at a minimum of \$20,000, depending on the specific arrangement reached with the client. Our fee schedule is as follows: 1% on the first \$5 million, 0.75% on the next \$5 million, and 0.50% on the next \$5 million. Fees are determined on an individual basis for assets greater than \$15 million. We charge only against those assets we consider to be managed.

Accredited Investors Inc.'s fee schedule is non-negotiable; however, we may offer families an opportunity to receive fees consistent with their aggregate assets under management. Further, we may make bill timing exceptions when services are needed prior to liquidity events or the availability of funds for management. Accredited may waive advisory fees and/or minimums for certain clients, such as charitable organizations or employees and members of their families.

Fees are calculated annually as a percentage of the market value of assets under management and are based on the client's anniversary date. Fees are paid quarterly, in advance, and represent one-quarter of the agreed upon annual fee adjusted for applicable asset flows. Typically, a client will authorize its custodian to deduct Accredited Investors Inc.'s fee directly from their account. Upon request, Accredited Investors Inc. will send an invoice directly to the client.

The client agreement may be cancelled at any time, by either party, for any reason upon receipt of 30 days written notice. As disclosed above, certain fees are paid in advance of services provided. Upon termination of any account, any prepaid, unearned fees will be

promptly refunded. In calculating a client's reimbursement of fees, we will prorate the reimbursement according to the number of days remaining in the billing period.

All fees paid to Accredited Investors Inc. for services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee and other fund expenses. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives.

Accredited Investors Inc., with client approval and authorization, may also use third party managers to manage a portion of clients' accounts. Whenever a portion of client assets are allocated to a third party manager as part of a client's asset allocation, Accredited Investors performs periodic due diligence of the manager(s) and monitors clients' accounts to ensure the third party managers are managing client's assets in accordance with the client's investment objectives.

Accordingly, the client should review both the fees charged by the funds/managers and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

Clients are also responsible for the fees and expenses charged by custodians and imposed by broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer with which an independent investment manager effects transactions for the client's account(s). Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

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

Accredited Investors Inc. does not charge performance-based fees. Refer back to Item 5 for our fee and compensation practices.

## **Item 7 Types of Clients**

Accredited Investors Inc. provides advisory services to the following types of clients:

- Individuals (including high net worth individuals)
- Trusts
- Foundations and endowments
- Charitable organizations
- Pension and profit sharing plans (other than plan participants)
- Corporations or other business not listed above

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

At Accredited Investors Inc., our investment decisions are guided by the theory of mean reversion. This investment theory states that while valuations and returns for various assets may vary substantially, over time valuations will return to their long-term average.

This leads to a clear-cut investment principle: buy low and sell high.

While in concept this philosophy is quite straightforward, its implementation requires a disciplined approach.

We tend to not chase investment returns, or move capital to “hot” sectors or assets. We focus on long-term results by allocating capital to areas of the market where we perceive the most attractive relative valuations and therefore the greatest potential returns.

The Investment Committee (“The IC”), which is composed of the president of the firm and investment managers of the firm, incorporates this approach into our portfolio construction process.

### **Portfolio Construction – Strategic**

The firm currently has five strategic asset allocations which vary based on risk and return. The mix is determined by the long term historical characteristics of each asset class and is therefore rarely altered. The strategic asset allocation is tailored for each client within



appropriate models, based on factors such as risk tolerance, portfolio liquidity needs, and time horizon.

### **Portfolio Construction – Tactical**

Using the strategic asset allocation as a framework, the IC then looks to tactically deploy capital to asset classes with the most attractive investment prospects. These decisions are based on valuations relative to historic averages and to other asset classes, on our expectations for economic and market conditions, and on business and financial fundamentals.

### **Investment Selection**

Finally, the IC decides on the specific investment vehicle to represent the strategic and tactical asset allocations. The vast majority of the firm's assets are held in the form of Exchange-Traded Funds (ETFs) and mutual funds, both actively and passively managed. Although the factors change based on market conditions and asset class, general considerations are expense ratios, fund size, firm size, risk and return metrics, performance history, compensation practices, and style biases. We only purchase mutual funds that we can buy without sales charges and due to our significant asset base, generally have access to institutional share classes when available which may have trading costs, but typically also have lower internal fees.

As noted above, Accredited Investors Inc. may use third party managers to manage a portion of client accounts. Accredited Investors has no control over the investment strategies or decisions of third party managers; however, Accredited will monitor client accounts and perform due diligence of third party managers. Should Accredited Investors become dissatisfied with the investment decisions of a third party manager it may recommend the client discontinue the use of that third party manager.

Based on individual circumstances, the firm may also utilize private investment, variable or immediate annuities, and certificates of deposit. These are not part of the firm's standard practices.

The IC believes investing presents a number of risks, measurable and otherwise. Some, but not all, of the risks include fluctuations relating to general economic conditions, interest rates, inflation ratios, functioning of the credit markets including liquidity risk, earnings and earnings expectations, political risk including regulations and changes in laws, and currency risks.

The IC employs margin to bridge settlement differences between ETFs and mutual funds. The IC does not regularly employ short selling or option trading but may do so at the request or need of the client.

### **Cash Management**

For clients with known liquidity needs, we advise setting aside cash or cash equivalents outside of their invested portfolios for the purpose of funding future expenses. We believe that this approach to managing cash reduces the risk of the overall portfolio for clients with liquidity needs. By setting aside cash for near-term expenses, we reduce the likelihood that assets would need to be sold at relatively low valuations in order to generate liquidity, and instead can attempt to proactively raise cash when asset valuations are more attractive.

The total recommended size of the cash reserve varies based upon market valuations as determined by the IC, and will generally fall within a band equivalent to 12 to 36 months of cash spending needs. The specific targeted range for cash reserves within that band at any given time will be based upon the recommendation of the IC in light of current market valuations, as well as a client's individual circumstances.

Investing in securities involves risk of loss that clients should be prepared to bear.

### **Item 9 Disciplinary Information**

Accredited Investors Inc. and its employees do not have legal or disciplinary events to disclose.

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

Our firm and our related persons are not engaged in other financial industry activities and have no other industry affiliations.

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

Accredited Investors Inc. has adopted a Code of Ethics (the Code) which sets forth the high ethical standards of conduct required of our employees, including compliance with applicable federal securities laws. The purpose of the Code is to preclude activities which may lead to or give the appearance of unethical business conduct.

The Code is designed to, among other things; provide reasonable assurance that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and/or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. Further, any related person(s) may have an interest or transact in a security for their own accounts at or about the same time that Accredited Investors Inc. recommends or invests in that same security for a client. A conflict of interest may exist in such cases because employees could trade ahead of clients and potentially receive more favorable prices. To monitor this conflict, Accredited Investors Inc. requires employees to report personal investment holdings and securities transactions. Employees are also required to obtain prior approval of any acquisition of securities in a limited offering (e.g., private placement) or initial public offering. Accredited Investors Inc. reviews this information for compliance the Code.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by contacting Ross Levin at 952-841-2222 or by email sent to

[Ross@accredited.com](mailto:Ross@accredited.com).

## **Item 12 Brokerage Practices**

Accredited Investors Inc. will endeavor to select those brokers or dealers which will provide the best services at the lowest commission rates possible. The reasonableness of commissions is based on the broker's stability, reputation, ability to provide professional services, competitive commission rates and prices, research, trading platform, and other services which will help Accredited Investors Inc. in providing investment management services to clients.

### **Recommending Custodian/Brokerage Firms**

Accredited Investors Inc. recommends the brokerage and custodial services of Charles Schwab & Co., Inc (Schwab) based on a number of factors including service, fees, financial strength, execution, and pricing. While we usually recommend clients establish accounts at Schwab, we also have custodial relationships with Fidelity Brokerage Services LLC (Fidelity), Pershing LLC (Pershing), and TD Ameritrade. The client may direct Accredited Investors Inc. to use a particular broker-dealer to execute some or all transactions for their accounts and Accredited Investors Inc. will facilitate on a best efforts basis. In such an event, the client will negotiate the terms and arrangements with that broker-dealer, and Accredited Investors Inc. will not seek better execution services or prices from other broker-dealers. Further, Accredited Investors Inc. will not be able to aggregate these clients' transactions with the transactions of Accredited Investors Inc.'s other clients. As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

### **Soft Dollars and Other Benefits**

Accredited Investors Inc. currently does not maintain any arrangements with broker-dealers or third parties for "soft dollar benefits" in connection with client securities transactions.

Accredited Investors Inc. may receive benefits for maintaining a certain dollar threshold of client assets at a given custodian. Unlike soft dollar benefits, these benefits do not depend on the amount of brokerage transactions directed to the custodian. Accredited Investors Inc. may receive some or all of the benefits listed below:

- access to client account data (such as trade confirmations and account statements)
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- provide pricing and other market data
- facilitate payments of Accredited Investors Inc. fees
- assist with back-office functions, record keeping and client reporting
- research related products and tools
- technology, compliance, legal, and business consulting
- educational conferences and events
- publications and conferences on practice management and business succession
- access to employee benefits providers, human capital consultants, and insurance providers

Some of these products and services benefit Accredited Investors Inc. and do not directly benefit client accounts. This is a potential conflict of interest. Accredited Investors Inc. manages this potential conflict of interest by periodically comparing the fees charged and services offered by its custodians with those offered by other custodians.

### **Trade Aggregation and Allocation**

Due to the nature of the securities in which we actively trade (specifically, mutual funds and ETFs), securities held in client accounts are generally traded on an individual basis and are not “bunched” or “blocked” with other client trades.

### **Trade Errors**

As a fiduciary, Accredited Investors Inc. has the responsibility to effect orders correctly, promptly and in the best interests of our clients. In the event any error occurs in the handling of any client transactions, due to Accredited Investors Inc.’s actions, or inaction, or actions of others, Accredited Investors Inc.’s policy is to seek to identify and correct any errors as promptly as possible without disadvantaging the client or benefiting Accredited Investors Inc. in any way.

If the error is the responsibility of Accredited Investors Inc., any client transaction will be corrected and Accredited Investors Inc. will be responsible for any client loss resulting from an inaccurate or erroneous transaction. If a trade error results in a loss, Accredited Investors Inc. will fully reimburse the client. If a trade error results in a gain, either the client or the custodian will keep the gain generally as dictated by the custodian's trade error correction practices. Accredited Investors Inc. maintains policies and controls surrounding trade errors, designed to provide reasonable assurance trade errors are properly addressed.

## **Item 13 Review of Accounts**

### **WEALTH MANAGEMENT SERVICES**

A review of the client's financial plan by the client's team occurs both periodically and on an as needed basis. We typically meet with clients anywhere from one to four times per year for an existing client and up to five times per year for a new client. The frequency is determined after a conversation with the client and review of their situation.

After meeting frequency is determined, agendas are set to help define focus areas for the coming year. These agendas are flexible and change based on the needs of the client and what is most relevant to them at that time.

Reports and deliverables are presented in clients meetings to help solidify concepts and illustrate key findings. In addition, each client typically receives a post meeting letter summarizing client goals, next steps, and action items.

### **INVESTMENT ADVISORY SERVICES**

In general, each client portfolio is reviewed once every three weeks. Trading is triggered based on deviations from the asset allocation model and is therefore dependent on market conditions. Overall, all clients must be reviewed once every 90 days. The review is performed by the Investment Manager, Wealth Manager or both.

The Investment Committee reviews performance of the asset class and funds on a weekly basis and can make a change at any time.

In addition to monthly reports provided directly from the custodian to the client, Accredited Investors Inc. provides reports to clients on a quarterly basis and during scheduled meetings. Based on client request, the reports are delivered electronically, written or both. Clients can also more frequently access electronic investment information through their custodian or through Accredited Investors Inc.'s secure, online client vault.

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

It is Accredited Investors Inc.'s policy not to engage solicitors or to pay related or non-related persons for referring potential clients to our firm.

It is Accredited Investors Inc.'s policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

As described in Item 12, Accredited Investors Inc. may receive services from the client's custodians in consideration of client assets held at the custodian.

## **Item 15 Custody**

All client assets are held at independent, qualified custodians. Under government regulations, we are deemed to have custody of client assets if they authorize us to instruct their custodian to deduct advisory fees directly from their account. Accredited Investors Inc. may also be deemed to have custody when a client provides Accredited Investors Inc. with user name and password information to access held away accounts directly on the custodian's website. In these cases, Accredited Investors Inc. undergoes an annual surprise examination where an independent public accountant must verify these assets directly with the client's custodian. Clients will receive monthly or quarterly account statements directly from the custodian where these assets are held. Accredited Investors Inc. urges clients to carefully review these statements and compare those statements with statements they receive from Accredited Investors Inc.

## **Item 16 Investment Discretion**

Clients may hire us to provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client:

- Determine the security to buy or sell; and/or
- Determine the amount of the security to buy or sell

Clients give us discretionary authority when they sign a discretionary agreement with our firm, and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions.

## **Item 17 Voting Client Securities**

Accredited Investors Inc. has policies and procedures to ensure that client securities are voted in the best interest of the client and to address conflicts of interest. If Accredited Investors Inc. has proxy voting authority with respect to an account, it votes on matters including corporate governance, adoption or amendments to compensations plans (including stock options), and matters involving social issues and corporate responsibility. Accredited Investors Inc. also votes on proxies related to mergers, acquisitions, tender offers, bankruptcy proceedings or other types of events. With respect to mutual funds, Accredited Investors Inc. votes on matters such as the approval of advisory contracts, distribution plans, and mergers. If our firm has a potential conflict of interest in voting a particular security, we will notify the client of the conflict and they will have the option to vote their own shares.

Accredited Investors Inc. utilizes a third party provider to assist with the administrative functions associated with the voting of proxies including electronic delivery of ballots, online voting, and integrated reporting and recordkeeping. All ballots pertaining to investments purchased by Accredited Investors Inc. as part of the client's investment policy will be discussed and voted by the Investment Committee. All remaining ballots for securities



beneficially owned by the client, but not recommended by Accredited Investors Inc., will generally be voted with the recommendation of the issuer's senior management team.

If a client does not authorize Accredited Investors Inc. to vote proxies, clients receive their proxies or other solicitations directly from the custodian or, in case of mutual fund shares, the fund's transfer agent.

Clients may obtain a copy of our complete proxy voting policies and procedures and how Accredited Investors Inc. voted a proxy by contacting Ross Levin by telephone (952-841-2222), email (Ross@accredited.com), or in writing (5200 W. 73rd Street, Edina, MN 55439).

## **Item 18 Financial Information**

Accredited Investors Inc. is financially capable of meeting all contractual commitments to clients.

Accredited Investors Inc. has never been the subject of a bankruptcy petition.

## **Item 19 Other Information**

### ***Class Actions and Other Legal Proceedings***

Accredited Investors Inc. does not participate in legal proceedings, including class actions, on behalf of its clients.