

# **D’Orazio & Associates, Inc.**

SEC File Number: 801 – 63706

## **ADV Part 2A, Firm Brochure**

**Dated: February 4, 2015**

Contact: Joseph A. D’Orazio, Chief Compliance Officer  
7600 Leesburg Pike, Suite 460 East  
Falls Church, Virginia 22043

**This Brochure provides information about the qualifications and business practices of D’Orazio & Associates, Inc. (“D’Orazio & Associates”). If you have any questions about the contents of this Brochure, please contact us at (703) 269-3100 or [jad@dorazioadvisors.com](mailto:jad@dorazioadvisors.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 D’Orazio & Associates is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**References herein to D’Orazio & Associates as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.**

## **Item 2           Material Changes**

There have been no material changes made to this ADV Part 2A, Firm Brochure since the previous annual amendment filing on March 21, 2014.

## **Item 3           Table of Contents**

Item 1	Cover Page.....	1
Item 2	Material Changes.....	2
Item 3	Table of Contents.....	2
Item 4	Advisory Business .....	3
Item 5	Fees and Compensation .....	7
Item 6	Performance-Based Fees and Side-by-Side Management .....	8
Item 7	Types of Clients.....	8
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss.....	9
Item 9	Disciplinary Information .....	11
Item 10	Other Financial Industry Activities and Affiliations .....	11
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	11
Item 12	Brokerage Practices .....	12
Item 13	Review of Accounts.....	15
Item 14	Client Referrals and Other Compensation .....	15
Item 15	Custody.....	15
Item 16	Investment Discretion.....	16
Item 17	Voting Client Securities.....	17
Item 18	Financial Information .....	17

#### **Item 4            Advisory Business**

- A. D'Orazio & Associates is a corporation formed on June 7, 2004 in the Commonwealth of Virginia. D'Orazio & Associates became registered as an Investment Adviser Firm in December 2004. D'Orazio & Associates is owned by Joseph A. D'Orazio, D'Orazio & Associates' President and Chief Compliance Officer.
- B. As discussed below, D'Orazio & Associates offers to its clients (i.e. individuals, pension and profit sharing plans, trusts, and business entities) with financial planning, investment and non-investment related consulting, and discretionary investment management services on either a combined or stand-alone basis.

##### **INVESTMENT ADVISORY SERVICES**

The client can determine to engage D'Orazio & Associates to provide discretionary investment advisory services on a *fee-only* or annual retainer fee basis. D'Orazio & Associates' annual investment advisory fee for *fee-only* based services is based upon a percentage (%) of the market value of the assets placed under D'Orazio & Associates' management.

Before D'Orazio & Associates provides investment advisory services, an investment adviser representative will ascertain each client's investment objectives. Thereafter, D'Orazio & Associates will allocate investment assets consistent with the designated investment objectives. Once allocated, D'Orazio & Associates provides ongoing monitoring and review of account performance and asset allocation as compared to client investment objectives.

For those clients that engage D'Orazio & Associates on an annual retainer basis, D'Orazio & Associates shall price its services based upon various objective and subjective factors. As a result, D'Orazio & Associates' clients could pay diverse fees based upon the market value of their assets, the overall complexity of the engagement, number of requested/anticipated meetings, and the level and scope of the overall financial planning and/or consulting services to be rendered. The amount of the annual fee is determined at the beginning of each engagement year and thereafter paid in four quarterly installments, in advance. The services to be provided by D'Orazio & Associates to any particular client could be available from other advisers at lower fees. All clients and prospective clients should be guided accordingly.

##### **FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)**

To the extent specifically requested by a client, D'Orazio & Associates may provide its clients with a broad range of comprehensive financial planning or consulting services (including investment and non-investment related matters). Financial planning services may include the following: review of property and liability insurance; income tax planning; cash management; estate planning; planning for children's education; retirement planning; retirement plan distribution analysis; real estate investment analysis; charitable gifting techniques; planning for special needs (e.g., disabled child, elder care, Medicaid qualification, etc.); divorce counseling; advanced estate planning techniques; practice management; planning for special situations (e.g., a business opportunity, an investment opportunity, buy-sell agreement, employment agreement, etc.). D'Orazio & Associates will generally charge a fixed and/or hourly fee for these services. D'Orazio &

Associates' financial planning and consulting fees are negotiable, but generally begin at a minimum of \$3,000 to a maximum of \$30,000 for a comprehensive financial plan, depending upon the level and scope of the services required, and the professionals rendering the services. D'Orazio & Associates, may, in its discretion, also provide hourly financial planning or consulting services. The hourly charge for these services will range from \$75 to \$500 depending upon the level and scope of the services required and the professionals rendering the services.

Prior to engaging D'Orazio & Associates to provide planning or consulting services, clients are generally required to enter into a *Financial Planning and Consulting Agreement* with D'Orazio & Associates setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the portion of the fee that is due from the client prior to D'Orazio & Associates commencing services. If requested by the client, D'Orazio & Associates may recommend the services of other professionals for implementation purposes. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from D'Orazio & Associates. **Please Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. **Please Also Note:** It remains the client's responsibility to promptly notify D'Orazio & Associates if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising D'Orazio & Associates' previous recommendations and/or services.

## **MISCELLANEOUS**

**Non-Investment Consulting/Implementation Services.** To the extent requested by the client, D'Orazio & Associates may provide consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. Neither D'Orazio & Associates, nor any of its representatives serves as a licensed insurance agent and no portion of D'Orazio & Associates' services should be construed as same. To the extent requested by a client, D'Orazio & Associates may recommend the services of other professionals for certain non-investment implementation purposes (i.e., attorneys, accountants, insurance, etc.). The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from D'Orazio & Associates. **Please Note:** Although D'Orazio & Associates' President and Chief Compliance Officer Joseph A. D'Orazio, is licensed as a Certified Public Accountant (CPA) and an attorney in his separate individual capacity, Mr. D'Orazio does not offer or provide accounting or legal services to any of D'Orazio & Associates' clients, and no corresponding CPA-client or attorney-client relationship is established. **Please Also Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional.

**Please Note: Inverse/Enhanced Market Strategies.** D'Orazio & Associates may utilize long and short mutual funds and/or exchange traded funds that are designed to perform in either an: (1) inverse relationship to certain market indices (at a rate of 1 or more times the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk; and (2) enhanced relationship to

certain market indices (at a rate of 1 or more times the actual result of the corresponding index) as an investment strategy and/or for the purpose of increasing gains in an advancing market. There can be **no assurance** that any such strategy will prove profitable or successful. In light of these enhanced risks/rewards, a client may direct D'Orazio & Associates, in writing, not to employ any or all such strategies for his/her/their/its accounts.

**Please Note: Cash Positions.** At any specific point in time, depending upon perceived or anticipated market conditions/events (there being **no guarantee** that such anticipated market conditions/events will occur), D'Orazio & Associates **may** maintain cash positions for defensive purposes. All cash positions (money markets, etc.) shall be included as part of assets under management for purposes of calculating D'Orazio & Associates' advisory fee. **D'Orazio & Associates' Chief Compliance Officer, Joseph A. D'Orazio, remains available to address any questions that a client or prospective client may have regarding the above fee billing practice.**

**Private Investment Funds.** D'Orazio & Associates may provide investment advice regarding unaffiliated private investment funds. D'Orazio & Associates' role relative to the private investment funds shall be limited to its initial and ongoing due diligence and investment monitoring services. If a client determines to become 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 D'Orazio & Associates calculating its investment advisory fee. **D'Orazio & Associates' clients are under absolutely no obligation to consider or make an investment in a private investment fund(s).**

**Please Note:** Private investment funds generally involve various 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 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.

**Please Also Note: Valuation.** In the event that D'Orazio & Associates references private investment funds owned by the client on any supplemental account reports prepared by D'Orazio & Associates, the value(s) for all private investment funds owned by the client shall reflect the most recent valuation provided by the fund sponsor. If the fund sponsor does not provide a post-purchase valuation, then the valuation shall reflect the initial purchase price (and/or a value as of a previous date) or the current value(s) (either the initial purchase price and/or the most recent valuation provided by the fund sponsor). If the valuation reflects the initial purchase price (and/or a value as of a previous date), then the current value(s) (to the extent ascertainable) **could be significantly more or less than the original purchase price.** The client's advisory fee shall be based upon such reflected fund value(s).

**Client Obligations.** In performing its services, D'Orazio & Associates shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify D'Orazio & Associates if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising D'Orazio & Associates' previous recommendations and/or services.

**Disclosure Statement.** A copy of D'Orazio & Associates' written Brochure as set forth on Part 2 of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Advisory Agreement or Financial Planning and Consulting Agreement*.

**Use of Mutual Funds:** Most mutual funds are available directly to the public. Thus, a client or prospective client can obtain many of the mutual funds that may be recommended and/or utilized by D'Orazio & Associates independent of engaging D'Orazio & Associates as an investment advisor. However, if a client or prospective client determines to do so, he/she/it will not receive the benefit of D'Orazio & Associates' initial and ongoing investment advisory services.

**Retirement Plan Rollovers-No Obligation/Conflict of Interest.** A client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): (i) leave the money in his/her former employer's plan, if permitted, (ii) roll over the assets to his/her new employer's plan, if one is available and rollovers are permitted, (iii) rollover to an IRA, or (iv) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences). D'Orazio & Associates may recommend an investor roll over plan assets to an Individual Retirement Account ("IRA") managed by D'Orazio & Associates. As a result D'Orazio & Associates and its representatives may earn an asset-based fee. In contrast, a recommendation that a client or prospective client leave his or her plan assets with his/her former employer or roll the assets to a plan sponsored by a new employer will generally result in no compensation to D'Orazio & Associates (unless clients engage D'Orazio & Associates to monitor and/or manage the account while maintained at his/her employer). D'Orazio & Associates has an economic incentive to encourage an investor to roll plan assets into an IRA that D'Orazio & Associates will manage or to engage D'Orazio & Associates to monitor and/or manage the account while maintained at the client's employer. There are various factors that D'Orazio & Associates may consider before recommending a rollover, including but not limited to: (i) the investment options available in the plan versus the investment options available in an IRA, (ii) fees and expenses in the plan versus the fees and expenses in an IRA, (iii) the services and responsiveness of the plan's investment professionals versus D'Orazio & Associates', (iv) protection of assets from creditors and legal judgments, (v) required minimum distributions and age considerations, and (vi) employer stock tax consequences, if any.

**No client is under any obligation to rollover plan assets to an IRA managed by D'Orazio & Associates or to engage D'Orazio & Associates to monitor and/or manage the account while maintained at the client's employer. D'Orazio & Associates' Chief Compliance Officer, Joseph A. D'Orazio, remains available to address any questions that a client or prospective client may have regarding its prospective engagement and the corresponding conflict of interest presented by such engagement.**

- C. D'Orazio & Associates shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, D'Orazio & Associates shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at anytime, impose reasonable restrictions, in writing, on D'Orazio & Associates' services.
- D. D'Orazio & Associates does not participate in a wrap fee program.
- E. As of December 31, 2014, D'Orazio & Associates had \$792,287,995 in assets under management on a discretionary basis.

## **Item 5 Fees and Compensation**

- A. The client can determine to engage D'Orazio & Associates to provide discretionary investment advisory services on a *fee-only* or annual retainer fee basis.

### **INVESTMENT ADVISORY SERVICES**

If a client determines to engage D'Orazio & Associates to provide discretionary investment advisory services on a *fee-only* basis, D'Orazio & Associates' annual investment advisory fee for *fee-only* based services is based upon a percentage (%) of the market value of the assets placed under D'Orazio & Associates' management, generally between 1.00% and negotiable, as follows:

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
The first \$500,000	1.00%
From \$500,001 to \$1,000,000	0.80%
From \$1,000,001 to \$10,000,000	0.60%
Over \$10,000,000	Negotiable

For those clients that engage D'Orazio & Associates on an annual retainer basis, D'Orazio & Associates shall price its services based upon various objective and subjective factors. As a result, D'Orazio & Associates' clients could pay diverse fees based upon the market value of their assets, the overall complexity of the engagement, number of requested/anticipated meetings, and the level and scope of the overall financial planning and/or consulting services to be rendered. The amount of the annual fee is determined at the beginning of each engagement year and thereafter paid in four quarterly installments, in advance. The services to be provided by D'Orazio & Associates to any particular client could be available from other advisers at lower fees. All clients and prospective clients should be guided accordingly.

### **FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)**

To the extent specifically requested by a client, D'Orazio & Associates *may* determine to provide financial planning and/or consulting services (including investment and non-investment related matters) on a stand-alone fee basis. D'Orazio & Associates' planning and consulting fees are negotiable, but generally begin at a minimum of \$3,000 to a maximum of \$30,000 for a comprehensive financial plan, depending upon the level and scope of the services required, and the professionals rendering the services. D'Orazio & Associates, may, in its discretion, also provide hourly financial planning or consulting services. The hourly charge for these services will range from \$75 to \$500 depending

upon the level and scope of the services required and the professionals rendering the services.

- B. D'Orazio & Associates' does not deduct its advisory fees from its clients' custodial accounts. Rather, D'Orazio & Associates directly bills clients quarterly in advance based upon the market value of the assets on the last business day of the previous quarter, with payment being due upon receipt.
- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, D'Orazio & Associates shall generally recommend that Charles Schwab and Co., Inc. ("*Schwab*") or TD Ameritrade Investor Services, Inc. ("*Ameritrade*") serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as *Schwab* and *Ameritrade* charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e., transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). In addition to D'Orazio & Associates' investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g., management fees and other fund expenses).
- D. D'Orazio & Associates' annual investment advisory fee shall be prorated and paid quarterly, in advance, based upon the market value of the assets on the last business day of the previous quarter. The *Investment Advisory Agreement* between D'Orazio & Associates and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination, D'Orazio & Associates shall refund the pro-rated portion of the advanced advisory fee paid based upon the number of days remaining in the billing quarter.
- E. Neither D'Orazio & Associates, nor its representatives accept compensation from the sale of securities or other investment products.

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

Neither D'Orazio & Associates, nor any supervised person of D'Orazio & Associates, accepts performance-based fees.

## **Item 7            Types of Clients**

D'Orazio & Associates' clients shall generally include individuals, business entities, trusts, estates and charitable organizations. D'Orazio & Associates generally requires initial minimum account assets of \$1,000,000 or an initial annual minimum fee of \$9,000 for combined planning and investment management services. D'Orazio & Associates, in its sole discretion, may charge a lesser investment management fee and/or waive or reduce its minimum fee or asset requirement based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).



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

A. D'Orazio & Associates may utilize the following methods of security analysis:

- Fundamental - (analysis performed on historical and present data, with the goal of making financial forecasts)
- Technical – (analysis performed on historical and present data, focusing on price and trade volume, to forecast the direction of prices)

D'Orazio & Associates may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Trading (securities sold within thirty (30) days)
- Short Sales (contracted sale of borrowed securities with an obligation to make the lender whole)
- Margin Transactions (use of borrowed assets to purchase financial instruments)
- Options (contract for the purchase or sale of a security at a predetermined price during a specific period of time)

**Please Note: Investment Risk.** Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by D'Orazio & Associates) will be profitable or equal any specific performance level(s). Investing in securities involves risk of loss that clients should be prepared to bear.

B. D'Orazio & Associates' methods of analysis and investment strategies do not present any significant or unusual risks. However, every method of analysis has its own inherent risks. To perform an accurate market analysis D'Orazio & Associates must have access to current/new market information. D'Orazio & Associates has no control over the dissemination rate of market information; therefore, unbeknownst to D'Orazio & Associates, certain analyses may be compiled with outdated market information, severely limiting the value of D'Orazio & Associates' analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

D'Orazio & Associates' primary investment strategies - Long Term Purchases, Short Term Purchases, and Trading - are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy. Trading, an investment strategy that requires the purchase and sale of securities within a thirty (30) day investment time period, involves a very short investment time period but will incur higher transaction costs when compared to a short term investment strategy and substantially higher transaction costs than a longer term investment strategy.

In addition to the fundamental investment strategies discussed above, D'Orazio & Associates may also implement and/or recommend – short selling, use of margin, and/or options transactions. Each of these strategies has a high level of inherent risk. (See discussion below).

Short selling is an investment strategy with a high level of inherent risk. Short selling, involves the selling of assets that the investor does not own. The investor borrows the assets from a third party lender (i.e., Broker-Dealer) with the obligation of buying identical assets at a later date to return to the third party lender. Individuals who engage in this activity shall only profit from a decline in the price of the assets between the original date of sale and the date of repurchase. Conversely, the short seller will incur a loss if the price of the assets rises. Other costs of shorting may include a fee for borrowing the assets and payment of any dividends paid on the borrowed assets.

Margin is an investment strategy with a high level of inherent risk. A margin transaction occurs when an investor uses borrowed assets to purchase financial instruments. The investor generally obtains the borrowed assets by using other securities as collateral for the borrowed sum. The effect of purchasing a security using margin is to magnify any gains or losses sustained by the purchase of the financial instruments on margin. **Please note:** To the extent that a client authorizes the use of margin, and margin is thereafter employed by D'Orazio & Associates in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to D'Orazio & Associates may be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential ***conflict of interest*** whereby the client's decision to employ margin *may* correspondingly increase the management fee payable to D'Orazio & Associates. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

The use of options transactions as an investment strategy involves a high level of inherent risk. Option transactions establish a contract between two parties concerning the buying or selling of an asset at a predetermined price during a specific period of time. During the term of the option contract, the buyer of the option gains the right to demand fulfillment by the seller. Fulfillment may take the form of either selling or purchasing a security depending upon the nature of the option contract. Generally, the purchase or the recommendation to purchase an option contract by D'Orazio & Associates shall be with the intent of offsetting/"hedging" a potential market risk in a client's portfolio. **Please Note:** Although the intent of the options-related transactions that may be implemented by D'Orazio & Associates is to hedge against principal risk, certain of the options-related strategies (i.e., straddles, short positions, etc), may, in and of themselves, produce principal volatility and/or risk. Thus, a client must be willing to accept these enhanced volatility and principal risks associated with such strategies. In light of these enhanced risks, client may direct D'Orazio & Associates, in writing, not to employ any or all such strategies for his/her/their/its accounts

- C. Currently, D'Orazio & Associates primarily allocates client investment assets among various mutual funds and/or exchange traded funds ("ETFs") (including inverse ETFs and/or mutual funds that are designed to perform in an inverse relationship to certain market indices), on a discretionary basis in accordance with the client's designated investment objective(s).

**Item 9            Disciplinary Information**

D’Orazio & Associates has not been the subject of any legal or disciplinary actions.

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

- A. Neither D’Orazio & Associates, nor its representatives, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither D’Orazio & Associates, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.
- C. D’Orazio & Associates has no other relationship or arrangement with a related person that is material to its advisory business. Although D’Orazio & Associates’ President and Chief Compliance Officer, Joseph A. D’Orazio, is licensed as a Certified Public Accountant (CPA) and an attorney in his separate individual capacity, Mr. D’Orazio does not offer or provide accounting or legal services to any of D’Orazio & Associates’ clients, and no corresponding CPA-client or attorney-client relationship is established.
- D. D’Orazio & Associates does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients.

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

- A. D’Orazio & Associates maintains an investment policy relative to personal securities transactions. This investment policy is part of D’Orazio & Associates’ overall Code of Ethics, which serves to establish a standard of business conduct for all of D’Orazio & Associates’ Representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, D’Orazio & Associates also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by D’Orazio & Associates or any person associated with D’Orazio & Associates.

- B. Neither D’Orazio & Associates nor any related person of D’Orazio & Associates recommends, buys, or sells for client accounts, securities in which D’Orazio & Associates or any related person of D’Orazio & Associates has a material financial interest.
- C. D’Orazio & Associates and/or representatives of D’Orazio & Associates *may* buy or sell securities that are also recommended to clients. This practice may create a situation where D’Orazio & Associates and/or representatives of D’Orazio & Associates are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as “scalping” (i.e., a practice whereby the owner of shares of a security recommends that security for

investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if D'Orazio & Associates did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, "front-running" (i.e., personal trades executed prior to those of D'Orazio & Associates' clients) and other potentially abusive practices.

D'Orazio & Associates has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of D'Orazio & Associates' "Access Persons". D'Orazio & Associates' securities transaction policy requires that an Access Person of D'Orazio & Associates must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person's current securities holdings at least once each twelve (12) month period thereafter on a date D'Orazio & Associates selects; provided, however that at any time that D'Orazio & Associates has only one Access Person, he or she shall not be required to submit any securities report described above.

- D. D'Orazio & Associates and/or representatives of D'Orazio & Associates *may* buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where D'Orazio & Associates and/or representatives of D'Orazio & Associates are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11.C, D'Orazio & Associates has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of D'Orazio & Associates' Access Persons.

## **Item 12      Brokerage Practices**

- A. In the event that the client requests that D'Orazio & Associates recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct D'Orazio & Associates to use a specific broker-dealer/custodian), D'Orazio & Associates generally recommends that investment management accounts be maintained at *Schwab* or *Ameritrade*. Prior to engaging D'Orazio & Associates to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with D'Orazio & Associates setting forth the terms and conditions under which D'Orazio & Associates shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that D'Orazio & Associates considers in recommending *Schwab* or *Ameritrade* (or any other broker-dealer/custodian to clients) include historical relationship with D'Orazio & Associates, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by D'Orazio & Associates' clients shall comply with D'Orazio & Associates' duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where D'Orazio & Associates determines, in good faith, that the commission/transaction fee is reasonable. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution

capability, commission rates, and responsiveness. Accordingly, although D'Orazio & Associates will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, D'Orazio & Associates' investment management fee. D'Orazio & Associates' best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

Additional factors that D'Orazio & Associates considers in recommending *Schwab* or *Ameritrade* are accounts that allow the client to:

- Select from a wide range of investment options including no-load, load mutual funds purchased with all loads waived and institutional mutual funds, certificates of deposit and individual stocks and bonds;
- Trade securities at deep-discounted commissions;
- Earn either taxable or federally tax-exempt money market income on any un-invested funds;
- Access money market funds using unlimited personalized checks, without monthly or annual fees of any kind; and
- Monitor all of the client's investments with monthly all-in-one statement or online through the Internet.

1. Research and Additional Benefits

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, D'Orazio & Associates may receive from *Schwab* or *Ameritrade* (or another broker-dealer/custodian, investment platform, unaffiliated investment manager, and/or mutual fund sponsor) without cost (and/or at a discount) support services and/or products, certain of which assist D'Orazio & Associates to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by D'Orazio & Associates may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by D'Orazio & Associates in furtherance of its investment advisory business operations.

As indicated above, certain of the support services and/or products that *may* be received may assist D'Orazio & Associates in managing and administering client accounts. Others do not directly provide such assistance, but rather assist D'Orazio & Associates to manage and further develop its business enterprise.

D'Orazio & Associates' clients do not pay more for investment transactions effected and/or assets maintained at *Schwab* or *Ameritrade* as a result of this arrangement. There is no corresponding commitment made by D'Orazio & Associates to *Schwab* or *Ameritrade* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

**D’Orazio & Associates’ Chief Compliance Officer, Joseph A. D’Orazio, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.**

2. D’Orazio & Associates does not receive referrals from broker-dealers.
3. D’Orazio & Associates does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and D’Orazio & Associates will not seek better execution services or prices from other broker-dealers or be able to "batch" the client’s transactions for execution through other broker-dealers with orders for other accounts managed by D’Orazio & Associates. As a result, 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.

**Please Note:** In the event that the client directs D’Orazio & Associates to effect securities transactions for the client’s accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through D’Orazio & Associates. Higher transaction costs adversely impact account performance.

**D’Orazio & Associates’ Chief Compliance Officer, Joseph A. D’Orazio, remains available to address any questions that a client or prospective client may have regarding the above arrangement.**

- B. To the extent that D’Orazio & Associates provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless D’Orazio & Associates decides to purchase or sell the same securities for several clients at approximately the same time. D’Orazio & Associates may (but is not obligated to) combine or “bunch” such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among D’Orazio & Associates’ clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. D’Orazio & Associates shall not receive any additional compensation or remuneration as a result of such aggregation.

### Item 13      Review of Accounts

- A. For those clients to whom D'Orazio & Associates provides investment supervisory services, account reviews are conducted on an ongoing basis by D'Orazio & Associates' Principal and/or representatives. All clients are advised that it remains their responsibility to advise D'Orazio & Associates of any changes in their investment objectives and/or financial situation. All clients (in person or telephonically) are encouraged to review investment objectives and account performance with D'Orazio & Associates on an annual basis.
- B. D'Orazio & Associates *may* conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer/custodian for the client accounts. Those clients to whom D'Orazio & Associates provides investment supervisory services will also receive a report from D'Orazio & Associates summarizing account activity and performance no less than annually.

### Item 14      Client Referrals and Other Compensation

- A. As referenced in Item 12.A.1 above, D'Orazio & Associates may receive an indirect economic benefit from *Schwab* or *Ameritrade*. D'Orazio & Associates, without cost (and/or at a discount), may receive support services and/or products from *Schwab* or *Ameritrade*.

D'Orazio & Associates' clients do not pay more for investment transactions effected and/or assets maintained at *Schwab* or *Ameritrade* as a result of this arrangement. There is no corresponding commitment made by D'Orazio & Associates to *Schwab* or *Ameritrade* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

**D'Orazio & Associates' Chief Compliance Officer, Joseph A. D'Orazio, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.**

- B. Neither D'Orazio & Associates, nor any of its representatives, directly or indirectly compensates anyone for client referrals.

### Item 15      Custody

D'Orazio & Associates shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis, but does not currently engage in that practice and bills clients directly instead. Clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer/custodian for the client accounts. Those clients to whom D'Orazio & Associates

provides investment supervisory services will also receive a report from D'Orazio & Associates summarizing account activity and performance no less than annually.

**Please Note:** To the extent that D'Orazio & Associates provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by D'Orazio & Associates with the account statements received from the account custodian. **Please Also Note:** The account custodian does not verify the accuracy of D'Orazio & Associates' advisory fee calculation.

Certain of D'Orazio & Associates' clients have asked D'Orazio & Associates to provide investment advisory and investment supervisory services to their 401 (k) accounts, IRC Section 529 plan accounts and non-qualified retirement plans. As such, D'Orazio & Associates maintains its client's login credentials (user name and password, etc.) to access the account holding client assets. Although the majority of such accounts do not permit D'Orazio & Associates (or the client) to withdraw funds or securities from the account, such as by requesting a withdrawal or transfer online or by being authenticated as the client over the telephone, several accounts allow D'Orazio & Associates to electronically withdraw funds or securities from the account.

For those accounts that D'Orazio & Associates is deemed to have custody, D'Orazio & Associates has hired an Independent Certified Public Accounting Firm to conduct surprise annual CPA examinations. The independent public accountant will verify client funds and securities in D'Orazio & Associates' custody, including those assets maintained with a qualified custodian and those that are not required to be maintained with a qualified custodian, such as certain privately offered securities and mutual fund shares.

The Securities and Exchange Commission ("SEC") believes that focusing "another set of eyes" on client assets (i.e., the accountant's) can provide another layer of protection against misappropriation or misuse, identify problems to put the SEC on notice, and increase the likelihood that a potential fraud is uncovered.

The Independent Certified Public Accounting Firm is also hired to conduct an annual custody control review and issue an internal control report. Specifically, the internal control report must contain a description of control objectives, controls, an accountant's tests and the results of those tests.

## **Item 16            Investment Discretion**

The client can determine to engage D'Orazio & Associates to provide investment advisory services on a discretionary basis. Prior to D'Orazio & Associates assuming discretionary authority over a client's account, the client shall be required to execute *Investment Advisory Agreement*, naming D'Orazio & Associates as the client's attorney and agent in fact, granting D'Orazio & Associates full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name for found in the discretionary account.



Clients who engage D'Orazio & Associates on a discretionary basis may, at anytime, impose restrictions, **in writing**, on D'Orazio & Associates' discretionary authority. (i.e. limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe D'Orazio & Associates' use of margin, etc).

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

- A. D'Orazio & Associates does not vote client proxies. Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets.
- B. Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact D'Orazio & Associates to discuss any questions they may have with a particular solicitation.

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

- A. D'Orazio & Associates does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. D'Orazio & Associates is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. D'Orazio & Associates has not been the subject of a bankruptcy petition.

**ANY QUESTIONS: D'Orazio & Associates' Chief Compliance Officer, Joseph A. D'Orazio, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**