

# David Cook & Associates, Inc

## Part 2A of Form ADV

### The Brochure

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This brochure provides information about the qualifications and business practices of David Cook & Associates, Inc. (“DCA”). If you have any questions about the contents of this brochure, please contact us at 770-622-9937. 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 DCA is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

This brochure contains information about DCA's business activities, and there have been no material changes since the last annual update of this brochure in March 2014.

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## Advisory Business

The Company was founded in 1988 and is owned by Sean Cook. As of December 31, 2014, the Company managed approximately \$198,730,598 on a discretionary basis and approximately \$36,280,197 on a non-discretionary basis.

### *FINANCIAL CONSULTING SERVICES*

For all of our wealth management clients, we perform extensive analysis of each specific client's current and financial goals to develop a long-term financial plan. The centerpiece of this analysis is the development of a long-term cash flow forecast (using Monte Carlo simulation techniques). This analysis is useful for many purposes and informs the client of the trade-offs that can be made between spending, savings, retirement age, alternative portfolio designs, proper insurance levels and other options. During our client planning sessions, DCA also reviews a range of client issues including:

- balance sheet structure;
- mortgage rates / structure;
- alternative lending options;
- insurance;
- charitable giving strategies and tools;
- budgeting / spending;
- cash flow;
- estate plans;

- wills, trusts;
- asset protection;
- education funding plans;
- tax optimization;
- concentrated equity positions;
- ESOP / stock options;
- annuities; and
- a host of other topics.

These topics are also discussed at regular client meetings and on an ad hoc basis, as needed.

Some clients are not eligible for our comprehensive wealth management services or only utilize us for investment management. For these clients, DCA may perform some or all of the above analyses as an aid to developing a cogent investment plan recommendation.

### *INVESTMENT ADVISORY SERVICES*

For most clients, management of assets is performed to seamlessly integrate with our financial planning activities. It is, therefore, sometimes difficult to differentiate "investment advisory services" from "financial consulting services". Our goal is not just to help clients with the task of investing their funds but, rather, to serve our clients by addressing a wide range of financial issues.

DCA offers a turnkey investment management solution including asset allocation, investment product selection, portfolio construction, trading, cash management, rebalancing, and other features such as tax loss harvesting and optimized asset location. Accounts are not managed individually as isolated entities but as part of an overall portfolio. This approach allows for more effective use of special accounts such as IRAs and minimizes needless duplication across accounts and trading costs.

Each portfolio is customized for the particular client. The agreement between client goals and portfolio design is one of the most important portfolio design tasks, if not the most important. DCA provides an Investment Policy Statement ("IPS") to each client discussing how the portfolio will be constructed, managed, monitored, and explaining the factors we considered when designing the portfolio. The IPS establishes the basis for making decisions regarding the structure of the portfolio and the investments to be selected in assembling the portfolio. The IPS establishes specific target amounts for broad categories of investments.

In most cases, DCA has discretion over the selection and amount of securities to be bought or sold without obtaining specific client consent. Because DCA engages in an investment advisory business and manages more than one account, there may be conflicts of interest over the time devoted to managing any one account and the allocation of investment opportunities among all accounts managed by DCA. DCA will attempt to resolve all such conflicts in a manner that is generally fair to all of its clients. DCA may give advice and take action with respect to any of its clients that may differ from advice given to any other client so long as it remains DCA's policy, to the extent practicable, to allocate investment opportunities over a period of time on a fair basis relative to other clients. DCA uses rebalancing software to simultaneously make comprehensive changes across a large number of portfolios, while considering the unique aspects of each client portfolio such as size, structure and tax position.

DCA serves individuals, trusts, foundations, estates, corporations, and corporate pension and profit sharing plans. DCA will manage advisory accounts on a discretionary or non-discretionary basis. Account supervision is guided by the stated objectives of the client.

## *PRIVATE FUNDS*

DCA also serves as an investment manager or adviser to a collective investment vehicle, DCA Diversified Alternatives Portfolio, LLC (the “Fund”). The Fund has been organized as a limited liability company under the laws of the State of Delaware as a private investment company. The Fund was organized with the aim of providing consistent positive returns that approximate the return of equities over the long term, with significantly less volatility. A secondary objective of the Fund is to produce returns that are not tied to the performance of traditional long-only equity and fixed income markets. The Fund seeks to meet these objectives by allocating capital among multiple third-party investment managers. Underlying investment managers will utilize a wide range of strategies designed to achieve returns that are largely uncorrelated with the traditional equity and fixed income markets. These strategies may include relative value arbitrage, long-short equity, distressed securities, long-short credit, opportunistic trading, merger arbitrage, real estate, private equity, short selling, managed futures and convertible arbitrage, among others. The Fund, however, does not follow a rigid investment allocation policy and is not restricted to investing in any or all of these strategies. DCA manages the assets of the Fund in accordance with the terms of the governing documents applicable to the Fund. The fund may invest in one or more mutual funds as a means of gaining access to some of the above strategies while maintaining liquidity.

Interests in the Fund are not registered under the Securities Act of 1933 and the Fund is not registered under the Investment Company Act of 1940. Accordingly, interests in such Fund are offered to investors satisfying the applicable eligibility and suitability requirements either in private placement transactions within the United States or in offshore transactions. Typically, these investors are high net worth individuals, institutions and other entities.

The minimum initial capital contribution by each subscriber is \$0, although DCA (the managing member) may, in its discretion, permit subscribers to make an initial minimum capital contribution of not less than \$250,000. Upon the acceptance by the managing member of an investor’s first subscription for Interests, such investor will become a non-managing member of the Fund. Non-managing members may generally make additional capital contributions on a monthly basis in amounts of not less than \$25,000, although the Managing Member may, in its sole discretion, permit subscribers to make additional capital contributions of less than \$25,000.

## **Fees and Compensation**

Annual fees for supervisory services are based on a percentage of assets, ranging from 1.00% to .25% (one percent to one quarter of one percent) depending on size. Fees can be subject to a minimum amount. DCA will provide a fee schedule to each client prior to initiating an investment management relationship and the agreed upon rates are explicitly stated in each client's contract.

- Billing in Advance. All fees are negotiated in advance. All fees are paid quarterly in advance.
- Cancellation. Clients may terminate a contractual relationship upon 30 days notice. All unearned pre-paid fees will be refunded on a pro rata basis.
- Calculation. Fees charged will be based upon month-end values (market value or fair market value in the absence of market value) plus/minus any credit/debit balance due to/from the client's account arising from deposit or withdrawal activity during the previous quarter.
- Debit/Credit in Arrears. If a client affects a portfolio with deposits or withdrawals such that the portfolio value changes by more than 10% in either direction, then DCA will prepare a pro-rated fee for the period in question to account for the change in value.

- Performance-based Fees. In very rare instances, fees charged for advisory services are calculated on a performance basis (to include a base fee and capped performance bonus).
- Payment Method. DCA typically directly deducts fees from the clients' accounts it oversees. However, invoices are sometimes sent to selected clients for manual payment. Clients may select either method.
- Invoicing. DCA provides clients with an invoice for fees charged detailing the market value and calculations on which the fees are based.

#### Fee Layers

It should be noted that clients whose assets are invested in shares of mutual funds, exchange traded funds, money market funds and private placements which assess an internal management fee, incentive fee, and/or expense charge are, in effect, paying two layers of fees and/or expenses. First, clients pay DCA a management fee based on the market value of total assets managed. In addition, clients pay another fee to the investment advisor or underwriter of the investment. It is DCA's judgment that the use of these investments is in the client's best interest. Moreover, it is in our best interest and our client's best interest to minimize these third-party fees.

In addition, if DCA uses over-the-counter securities (individual stocks, bonds, exchange traded funds) in a client portfolio or the transaction-fee share class of mutual funds, then an agency commission charged for the execution of such trades may represent an additional fee. DCA does not derive any compensation or benefit from agency commissions or individual product expenses and is incentivized to minimize such charges.

#### DCA Diversified Alternatives Portfolio Fee

The DCA Diversified Alternative Portfolio, LLC may charge a quarterly management fee in advance equal to 1.25% per year on the capital account balance. However, DCA has always waived 100% of management and incentive fees relating to this investment for all advisory clients. Effectively, DCA has elected to treat this investment as just another asset within the portfolio and calculates fees based on the total portfolio size.

#### Pricing and Invoice Accuracy

Note that DCA's policy is to review pricing on portfolio assets to ensure that securities are being priced fairly. In the event that DCA determines that a security is not being fairly priced by a custodian, general partner, or managing member and DCA has good reason and supporting materials to justify adjusting the valuation for reporting purposes and fee billing purposes, DCA will make the pricing adjustment to better reflect what it believes to be a fair valuation.

This creates a potential conflict of interest motivating DCA to justify higher asset values to increase fee revenue. DCA addresses this conflict by requiring a material amount of supporting evidence to adjust a valuation upward. In only one instance has DCA adjusted the fair value of an asset. In this case, DCA decreased the investment value from that shown on recent brokerage statements but only after gathering third party prices and explaining the rationale to a compliance consultant.

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

As stated in the Fees and Compensation section above, DCA charges performance based fees in some cases. Performance-based fees are calculated based on the appreciation of the client's assets.

DCA manages accounts that are charged a performance-based fee as well as accounts that are not charged a performance-based fee. The fact that DCA is compensated based on the trading profits for some clients and not others may create an incentive for DCA to favor accounts for which it receives a performance-

based fee. DCA attempts to address this potential conflict of interest by maintaining allocation policies and procedures designed to ensure that clients are treated fairly over time.

The performance based fee received by DCA is based primarily on realized and unrealized gains and losses. As a result, the performance based fee earned could be based on unrealized gains that clients may never realize.

## **Types of Clients**

DCA offers its services to individuals, trusts, foundations, estates, corporations, private funds, and corporate pension and profit sharing plans. DCA will manage advisory accounts on a discretionary or non-discretionary basis. Account supervision is guided by the stated objectives of the client.

Generally, the minimum fee for DCA services is \$10,000 per year. DCA may waive this minimum fee.

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

The following is a brief overview of some of the unique risks associated with DCA's investment strategies; however, it is not intended to serve as an exhaustive list or a comprehensive description of all risks and conflicts that may arise in connection with the management of client accounts.

### **METHODS OF ANALYSIS**

DCA generally begins the investment management process by assessing a number of key factors specific to each client, including but not limited to:

- 1) Return objectives;
- 2) Ability to assume risk;
- 3) Willingness to assume risk;
- 4) Time horizon;
- 5) Liquidity needs;
- 6) Tax constraints; and
- 7) Other unique circumstances.

Based on our assessment of these factors, we design a diversified portfolio structure that we believe best fits with the client's unique objectives and constraints. This design incorporates several asset classes (e.g., Large Cap Value) or strategies (Managed Futures) and a targeted portfolio weight for each class or strategy (the "asset allocation"). The asset allocation reflects DCA's expectations for risk, return and the correlation of each asset class or strategy to each other.

On an ongoing basis, DCA researches and monitors a wide range of investment vehicles. To complete the portfolio construction for a specific client, DCA selects from among the then-current list of approved investments that best fits our objective and other unique characteristics (e.g. the tax characteristics of the accounts to hold the investment). Investments considered by DCA include both active strategies and passive strategies. Investment structures typically include mutual funds, separately managed accounts, exchange traded funds, and private placements. The selection criteria will change by strategy and asset class but often includes such factors as expense ratio, tax sensitivity, investment mandate, manager stewardship, investment process and management team consistency.

Clients will have the opportunity to place reasonable restrictions on the types of investments to be held in their accounts. Clients retain individual ownership of all investments. Investing in securities involves risk of loss that clients should be prepared to bear.

## **SOURCES OF INFORMATION**

DCA will use databases of investment performance provided by many sources including Morningstar. Because we believe the information provided in these databases is reliable, DCA does not independently audit or verify the performance figures reported by managers that appear in these databases.

## **INVESTMENT STRATEGIES**

DCA uses a broadly diversified mix of assets and strategies within the typical portfolio. The purpose of this diversification is to reduce overall risk by integrating investments with low correlations one-to-another. All portfolios are constructed to achieve an appropriate level of return in relation to the level risk being assumed.

Although DCA will adjust portfolios for cash management, rebalancing, or other purposes described in detail below, our intention is to minimize transactions and any other possible friction costs. Portfolios designed by DCA are intended to serve as long-term investment allocations.

Nearly all portfolios will include a diverse mix of equities (stocks) and fixed income (bonds) comprised mainly of mutual funds or exchange traded funds. Equity allocations are diversified across sectors, market capitalization and geographies. Fixed income allocations are diversified across sectors, geographies, and maturities. As part of the diversification described above, portfolios also include investments in asset classes that do not neatly fit within traditional equity or fixed income asset class categorizations. These non-traditional investments include such classes as commodities, real estate, hedge funds, private equity and managed futures, among others.

DCA uses the terms "Capital Accumulation", "Capital Preservation", and "Multi-Strategy Hedge Funds" to describe these non-traditional investments. These terms are specific to our firm and are intended to help clients understand the purpose and risk-return expectations for each investment in their portfolio.

Our categorization of a particular investment product into one or more of these categories is based on its assessment of the product's risk and return expectations as well as historic and expected performance correlations with other investments.

- Capital Preservation - generally refers to investments that meet some or all of the following criteria. These investments:
  - are expected to exhibit lower volatility than equities or Capital Accumulation investments;
  - are expected to experience less severe drawdowns than equities or Capital Accumulation investments;
  - have a lower long-term return expectation than equity or Capital Accumulation investments;
  - are expected to produce mostly positive returns irrespective of the economic environment or equity market trends; and
  - employ non-directional strategies, convergence strategies, or arbitrage strategies.
- Capital Accumulation - generally refers to investments that meet some or all of the following criteria. These investments:

- employ higher volatility strategies than Capital Preservation investments;
  - are historically volatile investments that may experience significant losses over short or extended periods;
  - employ a high percentage of directional strategies;
  - employ strategies that are correlated to the equity markets; and
  - are expected to produce long-term returns similar to or better than public equities.
- Multi-Strategy Hedge Funds - refers to investments that include a diversified mix of hedged strategies that are expected to generate results independent of traditional equity and bond markets. These investments are used in lieu of both fixed income and equities based on DCA's assessment of these investments. The Multi-Strategy Hedge Fund category may include illiquid partnerships or liquid investments such as mutual funds that employ hedging and non-correlated strategies.

Single Portfolio Concept. It is important to note that all of the assets in the Account will be aggregated into a single portfolio that is intended to meet the client's overall goals. All aspects of managing the portfolio to include asset allocation, diversification, tax efficiency, reporting and others will be viewed in the aggregate and not by account. In other words, the overall account will maintain diversification but any one brokerage account may be concentrated in a single strategy or investment. To diversify each investment account would obviously require substantially more positions and lead to much higher trading costs.

For most but not all clients, DCA's long term strategic asset allocation employs the use of hedge fund of funds and managed futures. DCA may access these investments through mutual funds or private placements. It has been our experience and remains our belief that maintaining a constant allocation to these funds at all times significantly reduces overall portfolio volatility (risk). Typically a client's portfolio allocation for these strategies will range from 10% to 40%. The specific amount to be invested in this category is based on a number of factors including the client's comfort level and experience in making such investments and the recommended amount may be adjusted over time as these factors change.

Risk Factors of Alternative Investments. Hedge fund of funds and managed futures private placements employ a variety of strategies and are subject to *different risks* than traditional mutual funds.

In most, but not all cases, DCA uses hedge fund-of-funds and managed futures funds to achieve consistent returns that are relatively uncorrelated with traditional equity and bond investments. These investments are subject to the risks generally incident to the ownership of publicly-traded securities, futures, options, commodities and limited partnerships. Thus, the value of these investments may be adversely affected by general economic conditions, general securities and market conditions, interest rates, governmental rules, fiscal policies and other factors beyond the fund's control. Also, the use of leverage, illiquidity, and more limited regulation may increase the risk of these investments. These are described below:

- Leverage. Many hedge fund strategies and managed futures investments involve the use of leverage either through borrowing or through investments such as futures and swaps. Leverage may significantly increase the market exposure and risk of an investment. When a hedge fund has borrowed money for leverage and its investments increase or decrease in value, the fund's net asset value will increase or decrease more than if it had not borrowed money.
- Illiquidity and Limitations on Withdrawals. Hedge funds may make investments in illiquid assets that can include private equity, private real estate and distressed debt. As a result, assets in hedge funds may not be accessible on short notice. Most hedge funds allow investors to withdraw funds only at certain intervals--such as quarterly or annually. Additionally, hedge fund managers



typically impose “lock-ups” that require an investor to wait from one to two years following their initial investment to withdraw funds. These liquidity restrictions are designed to afford managers flexibility in their investment decisions and to protect current investors from forced sales at inopportune times. Illiquidity may be an inconvenience to investors who require quick access to their funds or who may wish to redeploy their investments quickly.

- **Limited Regulation and Transparency.** Hedge funds and managed futures funds are not required to disclose all of their positions to investors and some hedge fund managers choose not to reveal their underlying positions. Managers may contend that giving away these “trade secrets” or intellectual capital will allow others to replicate their strategies and, in turn, reduce the effectiveness of those strategies. In cases of hedge funds offering limited transparency, investors must rely on thorough due diligence of a fund’s processes, strategies and management team to gain comfort with the investment. Limited transparency and oversight also increases the risk of fraud and reaffirms the need for investors to perform thorough due diligence.

The risks of hedge funds and managed futures investments are more thoroughly described in the corresponding private placement memorandums that must be provided to potential investors before investing in such a fund. Investors must meet certain accreditations in order to access some of these investments.

## **Disciplinary Information**

DCA and its employees have been involved in no legal or disciplinary events in the past 10 years that would be material to a client’s evaluation of the company or its personnel.

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

DCA acts as the managing member to a fund formed as a limited liability company. Investments in any Fund of which DCA or any related person serve as a general partner or manager are conducted on a private placement basis and prospective investors are solicited only by means of the current prospectus or private placement memorandum of the relevant Fund.

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

### **CODE OF ETHICS**

To avoid any potential conflicts of interest involving personal trades, DCA has adopted a Code of Ethics (“COE”), which includes “personal trade reporting and review” policies and procedures as well as “insider trading” policies and procedures. The Advisor’s COE requires, among other things, that Employees:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets;
- Place the integrity of the investment profession, the interests of clients, and the interests of Advisor above one’s own personal interests;
- Adhere to the fundamental standard that you should not take inappropriate advantage of your position;
- Avoid any actual or potential conflict of interest;

- Conduct all personal securities transactions in a manner consistent with this policy;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities;
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on yourself and the profession;
- Promote the integrity of, and uphold the rules governing, capital markets;
- Maintain and improve your professional competence and strive to maintain and improve the competence of other investment professionals; and
- Comply with applicable provisions of the federal securities laws.

DCA's COE also requires Employees to: 1) pre-clear certain personal securities transactions, 2) report personal securities transactions on at least a quarterly basis, and 3) provide the Advisor with a detailed summary of certain holdings and securities accounts (both initially upon commencement of employment and annually, thereafter) over which such Employees have a direct or indirect beneficial interest.

A copy of the Advisor's COE is available to any client or prospective client upon request.

## **PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

DCA or individuals associated with it may buy or sell securities identical to those recommended to advisory clients by DCA or recommended money managers.

As this situation may pose a potential conflict of interest, DCA has established the following restrictions:

1. An officer or employee of DCA shall not buy or sell securities for his or her personal portfolio(s) where his or her decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public on reasonable inquiry. No person of DCA shall prefer his or her own interest to that of the advisory client.
2. DCA maintains a list of all securities holdings for itself, and anyone associated with its advisory practice.
3. DCA emphasizes the unrestricted right of the client to decline to implement or modify any advice rendered.
4. DCA emphasizes the right of the client to select and choose any broker or dealer and/or insurance company(s) he wishes.
5. DCA requires that all officers and employees act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
6. Any officer or employee not in observance of the above may be subject to termination.

The DCA Diversified Alternatives Portfolio, LLC is subject to actual and potential conflicts of interest. For example, the fees payable by the Fund to DCA were established by DCA as the Managing Member and not as a result of arms-length negotiation. Please note, however, that DCA has waived all Fund fees since the inception of the Fund, therefore, this potential conflict of interest has yet to arise. Also, DCA may manage positions for clients in investments that are also used by the Fund and may have an incentive to favor one account over the other in a given situation--although it will not knowingly do so. Sean Cook

invests directly in the DCA Diversified Alternatives Portfolio, LLC.

### **FEE-ONLY ADVISOR**

It is worth noting that DCA believes there is no “conflict free” wealth advisory model and that even a fee-only advisor, such as DCA, faces conflicts in specific situations. For instance, DCA’s objectivity may be affected when considering products or actions that may reduce the absolute level of assets on which DCA is able to assess fees. For example, conflicts of interest may arise as clients evaluate using DCA-managed portfolio assets to:

- reduce outstanding debt or pay off a mortgage;
- purchase certain types of insurance; and/or
- purchase annuities.

Additionally, we might be conflicted in advising a client whether or not to sell or reduce a concentrated investment held outside the DCA-managed portfolio to then add the proceeds to the portfolio we oversee. These represent examples and there are other cases where similar conflicts may arise.

As a fiduciary, DCA attempts to consider such decisions and products objectively and to provide recommendations that place the client’s best interest ahead of our own. Also, we attempt to make clients aware of such conflicts in the advice process by explicitly stating the conflict to them. It is worth noting that we routinely recommend actions that are against our own best interest (i.e. to reduce a margin line or mortgage) in the process of serving clients.

## **Brokerage Practices**

If a client agrees to discretionary management, DCA will be responsible for selecting the amount of securities to be bought and sold. The only limitations on the investment authority will be those limitations imposed in writing by the client or noted in the investment policy statement.

In addition, DCA prefers clients to utilize a broker with whom DCA has an established relationship, such as Charles Schwab & Company, Inc. (“Schwab”). Therefore, DCA will suggest brokers to clients but does not require that clients select certain brokers/custodians. DCA will make recommendations based on the needs of the client and the services provided by the broker/custodian such as the ability to execute trades, technology, margin rates, client service, online access to accounts, transaction charges, consolidated reporting, and duplicate monthly statements. When a client has given DCA investment discretion, there is no contractual restriction on DCA’s selection of brokers to execute client transactions. Generally, however, when placing client trades, DCA will select brokers that custody the client’s assets. Commission rates and other transaction charges to be paid by a client to such brokers that also custody the client’s assets are generally set forth in the brokerage/custodian agreement that the client separately enters into with the broker/custodian.

### **DIRECTED BROKERAGE**

Where DCA utilizes the broker that custodies a client’s assets and/or if the client directs DCA to use a particular broker or dealer, DCA may not have authority to negotiate commissions or obtain volume discounts, and best execution may not be achieved. There may also be a disparity in commission charges versus the commissions charged to other clients and the client may not have access to lower cost mutual fund share classes. In addition, transactions for a client who directs brokerage may not be batched for execution with transactions in the same securities for other clients. As a result, directed brokerage

transactions may result in higher commissions, greater spreads, more costly share classes or less favorable net prices than would be the case if DCA were authorized to choose the broker/dealers through which to execute transactions for the client's account. Additionally, DCA may modify the asset allocation and portfolio construction for such a client to reflect these higher frictional costs.

## **BEST EXECUTION**

DCA always attempts to achieve best execution for its clients. Achieving the best net price is an important factor in brokerage decisions, but other judgmental factors may also enter into this decision. These include:

- DCA's knowledge of negotiated commission rates currently available, as well as other transaction costs;
- nature of the security being traded;
- size of the transaction;
- desired timing of the trade;
- activity existing and expected in the market for the particular security;
- confidentiality; and
- execution, clearance, and settlement capabilities and costs; and other information available at the time of execution.

## **RESEARCH & OTHER PRODUCTS OR SERVICES**

DCA recommends the use of Schwab as custodian and broker-dealer for most of the accounts we oversee. Schwab has developed a fairly extensive suite of services tailored to the needs of investment advisors such as custom account applications that explicitly enumerate the privileges that clients wish to grant their advisor(s). Over time, Schwab has come to enhance its suite of services to include:

- online research;
- competitive transactions costs, fees and margin rates;
- technology solutions; and
- information and training sessions to aid advisors with compliance and financial planning, and to help advisors make better use of Schwab's services.

The provision of such services by Schwab is believed to be dependent upon the advisor maintaining a material relationship with Schwab. However, there are no specific minimum trading thresholds (or corresponding commission amounts payable to Schwab) that we must maintain to continue gaining access to this set of services and products. In fact, we believe that most advisors using Schwab's platform are able to access the same set of services.

DCA enters into no formal soft-dollar arrangements and makes no effort to direct activities such that Schwab will obtain higher revenues with the expectation that DCA, in turn, will benefit from those increased revenues in the form of free services (research, etc.). To the contrary, we attempt to use the collective size of the accounts we oversee to negotiate discounted trading rates, fees, or margin rates with Schwab to benefit our clients.

In fulfilling its duties, DCA must often choose between using the non-transaction fee mutual fund share class or the institutional share class. Purchases and sales of institutional shares entail a trading fee charged by Schwab but the funds, themselves, charge a lower ongoing expense ratio to investors. We carefully assess the trade-offs between the alternative of purchasing the non-transaction fee or institutional share

class with the objective of using the class of shares that provides the lowest overall cost to the client over time. This effort reduces Schwab's fees to the benefit of our clients. Thus, while DCA is the recipient of free services and research from Schwab, this does not impact the amount of trading we execute at Schwab. DCA actively seeks to reduce overall client fees by using long-term buy and hold allocations, careful trading and other oversight measures.

## Review of Accounts

DCA employs long-term investment strategies but client portfolio allocations are reviewed at least weekly during the year to determine whether each client's then-current investment allocation remains in-line with DCA's client-specific target ranges. DCA seeks to minimize transaction costs, adverse tax consequences, or other frictions associated with trading. Therefore, DCA sets thresholds for the level of deviation from asset class targets that may justify executing one or more trades to remedy. Account activity is usually the result of one of the following:

- *Cash management*: Raising cash for a client need or investing excess cash.
- *Portfolio rebalancing*: A portfolio that is left to "run its course" and is not "rebalanced" back to the intended target allocation levels can become far more risky (or conservative) than the investor and advisor originally intended. Rebalancing is the activity performed by DCA to maintain targeted investment allocations by position and asset class and, thereby, maintain a consistent risk allocation for clients. In most cases, rebalancing entails selling positions that have outperformed and buying positions that have underperformed—an action that may seem counterintuitive to many investors.
- *Tax loss harvesting*: Selling a position in a taxable account with a loss and replacing it with a similar investment. This activity can help to reduce near-term taxes by offsetting realized gains with realized losses.
- *Investment change*: Removing an existing holding from the portfolio or adding a new investment. For various reasons, DCA may determine that an existing position is no longer appropriate for a portfolio. It may be that our views on the investment have changed or that another investment is deemed a better vehicle for meeting the client's objectives. Alternatively, DCA may elect to add a new position to the portfolio without selling a corresponding, single position to improve the risk/return characteristics of the existing portfolio.
- *Allocation change*: Changing the targeted asset allocation weightings. DCA may elect to modify its target asset allocation at a firm-wide level due to perceived risks, opportunities, or material changes to the risk and return assumptions for an asset class (or classes). Alternatively, DCA may change the allocation targets for an individual client in light of changes to factors such as risk tolerance, time horizon, liquidity needs, tax situation or return objectives.

A comprehensive performance report is provided to each client following the conclusion of each calendar quarter. DCA's quarterly reports are extensive. Performance is calculated over several time horizons including the most recent quarter, year-to-date and since inception (note: "inception" is the date on which DCA began to manage assets on behalf of the client). DCA reports also include such items as:

- total portfolio performance compared to benchmarks;
- performance by position compared to benchmarks;
- current asset allocation and allocation over time; and
- portfolio risk characteristics.

## Client Referrals and Other Compensation

DCA accepts no commissions or other direct cash compensation whatsoever from any product provider as compensation for recommending its products. However, in the spirit of complete disclosure, it may be worth noting two types of non-cash compensation that may be perceived to diminish DCA's objectivity with respect to product or custodian recommendations.

- 1) As a fiduciary, DCA endeavors to act in its clients' best interests. DCA's recommendation, however, that clients maintain their assets in accounts at Schwab is based in part on the availability of products and services provided to DCA by Schwab and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab. This creates a potential conflict of interest. Schwab makes available to DCA products and services that benefit DCA but may not benefit its clients' accounts directly. Some of these products and services assist DCA in managing and administering clients' accounts. Many of these services generally may be used to service all or a substantial number of DCA's accounts and it is our understanding that these products and services are available to all investment advisors using Schwab Institutional's brokerage platform. These include:
  - Software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution, provide pricing information and other market data, facilitate payment of DCA's fees from its clients' accounts, and assist with back-office functions, recordkeeping and client reporting.
  - Other services intended to help DCA manage and develop its business enterprise. These services include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing among others. In addition, Schwab may make available, arrange and/or pay for these types of services rendered to DCA by independent third parties.
  - Discounted or waived fees Schwab would otherwise charge for services.
- 2) In very limited cases, a product provider such as a hedge fund operator or mutual fund family may offer lectures, seminars or research to DCA that is of benefit to DCA and not clearly beneficial to all of its clients. For example, DCA has attended a 2-day conference sponsored by JP Morgan Asset Management in which speakers discussed various investment topics not specifically related to that company's products (i.e. trends in wealth management practice economics). In such cases, the conference sponsor typically pays for some meals during the conference. Finally, it is not uncommon for DCA to accept occasional meals from a product provider when discussing their products and services.

From time to time DCA makes charitable donations and sponsors charity events. Such activities are at the sole discretion of DCA, but are sometimes at the request of a client, prospective client, consultant, and other individuals and entities or affiliates with which DCA does or may do business with in the future. DCA may have an incentive to make such donations and sponsorships for a number of reasons. For example, the individuals and entities making these requests may pay DCA management and incentive fees for investment advisory services rendered and/or may refer clients to DCA who would subsequently pay management and incentive fees.

In the normal course of business, DCA may also provide gifts and gratuities that in some cases may take the form of charitable donations, to various individuals and entities, including clients. These gifts and

gratuities are not premised upon client referrals or any other type of benefit to DCA. Nevertheless, this practice may present the appearance of a conflict of interest in the event that the individual or entity refers a prospective client to DCA.

DCA maintains written policies and procedures with regard to the giving and receipt of gifts and gratuities and the giving of donations, contributions, and sponsorships in order to help minimize the risks associated with potential conflicts of interest between the interests of DCA and its clients.

## **Custody**

All client assets managed by DCA are held in custody by unaffiliated “qualified custodians”, such as broker/dealers or banks. However DCA has access to client accounts in two instances:

- 1) Since DCA serves as the managing member of the DCA Diversified Alternatives Portfolio, LLC, we have the ability to invest or use assets of the LLC as we deem appropriate. Moreover, investors in the LLC will not receive statements from the custodian. Instead, the LLC is subject to an annual audit and the audited financial statements are distributed to each investor. The audited financial statements will be prepared in accordance with generally accepted accounting principles (GAAP).
- 2) DCA occasionally manages “external” accounts for clients such as 401(k)’s or 403(b)’s as part of the integrated client portfolio. We must have login access to these external accounts to fulfill our duties to trade and track these accounts. Sometimes this login access also provides the online capability to distribute assets and to direct the destination of the distribution. Therefore, DCA is deemed to have custody of these accounts and must comply with the related requirements. DCA will form a reasonable basis, after “due inquiry,” that such clients’ qualified custodians send account statements at least quarterly to each such client identifying the amount of funds and each security held by each account at the end of the period and setting forth all cash and security portfolio transactions during the period. Clients should carefully review such statements and are urged to compare the account statements they receive from the qualified custodians with those they receive from DCA. In addition, with respect to such clients for which DCA is deemed to have custody, DCA will make arrangements with a PCAOB registered firm to conduct an annual surprise audit of each such client account.

## **Investment Discretion**

DCA offers Investment Supervisory Services, defined as giving continuous advice to a client or making investments for a client based on the individual needs of the client which are translated into an Investment Policy Statement (IPS). This statement establishes the basis for decision making regarding the structure of the client's portfolio and the investments to be selected in assembling that portfolio.

In most cases, DCA has discretion over the selection and amount of securities to be bought or sold without obtaining specific client consent. Because DCA engages in an investment advisory business and manages more than one account, there may be conflicts of interest over the time devoted to managing any one account and the allocation of investment opportunities among all accounts managed by DCA. DCA will attempt to resolve all such conflicts in a manner that is generally fair to all of its clients. DCA may give advice and take action with respect to any of its clients that may differ from advice given or the timing or nature of action taken with respect to any other client so long as it remains DCA’s policy, to the extent practicable, to allocate investment opportunities over a period of time on a fair basis relative to other clients.

## **Voting Client Securities**

DCA will not exercise proxy voting authority over client securities. The obligation to vote client proxies shall at all time rest with client. Clients shall in no way be precluded from contacting DCA for advice or information about a particular proxy vote. However, DCA shall not be deemed to have proxy voting authority solely as a result of providing such advice to client.

Should DCA inadvertently receive proxy information for a security held in client's account, then DCA will immediately forward such information on to Client, but will not take any further action with respect to the voting of such proxy. Upon termination of its Agreement with a client, DCA shall make a good faith and reasonable attempt to forward proxy information inadvertently received by DCA on behalf of client to the forwarding address provided by the client to DCA.

DCA relies on the underlying investment managers within the DCA Diversified Alternatives Portfolio, LLC to vote any proxies related to the Fund.

## **Financial Information**

DCA has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.