

**Abbot Financial Management, Inc.**

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**Form ADV Part II**

**Date of Brochure: September 24, 2015**

**This brochure provides information about the qualifications and business practices of Abbot Financial Management, Inc. If you have any questions about the contents of this brochure, please contact us at (978) 688-9010. 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 Abbot Financial Management, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). As a registered investment advisor, it must be noted that registration does not imply a certain level of skill or training.**

## **Item 2: Material Changes**

There have been no material changes to the business of Abbot Financial Management in the past year since the last filing in September 2014. This brochure has been prepared in order to conform to the requirements for Form ADV Part 2 as instituted by the SEC.

Whenever a client would like to receive a complete copy of our disclosure document or our Full ADV, please contact us at (978)688-9010 or by email to [anovelline@abbotfm.com](mailto:anovelline@abbotfm.com).

## Table of Contents

<u>Item Number</u>	<u>Item</u>	<u>Page</u>
1	Cover Page.....	1
2	Material Changes.....	2
3	Table of Contents.....	3
4	Advisory Business Services.....	4
5	Fees and Compensation.....	4
6	Performance-Based and Side-By-Side Management.....	6
7	Types of Clients.....	6
8	Method of Analysis, Investment Strategies and Risk of Loss Analysis...	6
9	Disciplinary Information.....	7
10	Other Financial Activities and Affiliations.....	7
11	Code of Ethics.....	8
12	Broker Practices.....	9
13	Review of Accounts.....	10
14	Client Referrals and Other Compensation.....	11
15	Custody.....	11
16	Investment Discretion.....	12
17	Voting Client Securities.....	12
18	Financial Information.....	12
	Brochure Supplement.....	13

#### **Item 4: Advisory Services**

Abbot Financial Management, Inc. (AFM), a registered investment advisor, was started in 1983 to provide investment management to individuals, families, trusts, retirement plans and foundations. We are registered with the Securities and Exchange Commission and our commitment is to assist clients in achieving a consistent, dependable investment return from a high quality portfolio of stocks, bonds and mutual funds. While being sensitive to each individual client's risk parameters, it is our goal to protect and grow principal.

The sole owners of AFM are Andrew J. Novelline and William T. Novelline, Jr.

AFM works with clients to structure an investment portfolio based on the needs of each individual. An assessment of risk tolerance, time frame and goals along with other financial planning needs are considered when a portfolio allocation is recommended. Client portfolios may consist of a combination of individual stocks, individual bonds, cash equivalents, mutual funds and exchange traded funds. AFM will continually monitor each portfolio and work with clients to continually evaluate the appropriateness of the strategy.

#### **Managed Assets**

Assets under management (AUM) as of June 30, 2015 are approximately \$155,500,000. This is made up primarily of assets that are managed on a discretionary basis (\$153,100,000) and a small amount of assets managed on a non-discretionary basis (\$2,400,000)

#### **Item 5: Fees and Compensation, Fee Schedule, Other Fees & Expenses**

AFM supplies investment advisory and financial management services by giving continuous advice to clients based upon the needs and objectives of respective clients. AFM creates portfolios based on the strategy that is discussed in planning meetings with the client. Each client account is individually managed based on the client's specific investment objectives. Clients may be families, trusts, pension and profit sharing plans. Annual fees are payable in advance quarterly and may, if authorized, be deducted directly from client accounts. The fees are based upon a percentage of the market value of assets under management including cash and cash equivalents at the time of the appraisal, which is always the close of the calendar month. Prior to October 1, 2001 our fee structure was as follows:

1 (one) % of the first \$2 million under management

½ (one-half) % over \$2 million under management

We consider these clients, and the relatives of these clients as “grandfathered” and they continue with this legacy fee structure. Beginning October 1, 2001, new clients are offered this fee structure:

1.25% of the first \$1 million

1.00% of assets between \$1 million and \$3 million

0.75% of assets between \$3 million and \$5 million

0.50% of assets between \$5 million and \$10 Million and over

Investment advisory contracts are cancelable by either party within 30 days after written notice; the unexpired portion of a prepaid fee will be refunded for the period beginning with the date of cancellation.

The firm reserves the right to vary this fee structure and negotiate fees when client circumstances warrant. Non-profit organizations may be offered a 40% discount.

AFM may provide financial and estate planning advice to its investment management clients. We do not receive additional compensation for such services.

Advisory fees payable to us do not include all the fees you will pay when we purchase or sell securities for your account(s). The following is a list of material fees or expenses that could be charged by the broker/custodian directly to the client:

- Brokerage commissions (including mark-ups and mark-downs)
- Transaction fees
- SEC fees
- Advisory or administrative fees charged by mutual funds or exchange traded funds
- Custodial fees
- Wire transfer and electronic fund processing fees

We do not receive directly or indirectly any portion of these fees charged to you. They are paid directly to the broker/custodian/mutual fund company. In addition, we do not have any employee that receives any compensation from the purchase or sale of securities for a client account. We are a fee-only advisor. Because of this, we seek to keep these transaction costs at a minimum and use only no-load mutual funds.

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

AFM does not charge advisory fees tied to the performance for any of our client accounts under management. Our advisory fee compensation is charged only on the asset-based fee calculation described in the Section 5 above.

### **Item 7: Types of Clients**

AFM serves the following types of clients:

- Individuals, including high net worth individuals
- Trusts, Families, Estates, and charitable organizations
- Pension and profit sharing plans

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

At AFM, each of our clients has their own individual set of financial goals, needs and objectives so client accounts are managed separately according to the strategy for that client. The types of investments we use to construct client portfolios include:

- Common stocks and preferred stocks
- Exchange Traded Funds (ETF's)
- Fixed income investments including corporate, government and municipal bonds
- No-Load Mutual Funds
- Exchange traded limited partnerships

Our analysis methods and information sources include:

- Financial publications and economic reports
- Third party research materials
- Annual reports, prospectuses and filings with the Securities & Exchange Commission
- Corporate rating services
- Company press releases & corporate activities

When purchasing securities for client portfolios, our intention is to hold the security for the long-term (held at least one year) although in some circumstances we will sell positions in less than that time frame if the situation warrants it.

### Risk of Loss

All AFM portfolios are subject to the risks associated with the stock and bond markets for which the client should be prepared. Ownership of stocks, in particular, offer material risks for investors. As part of our portfolio management, AFM closely looks at both technical and fundamental analysis to fully understand the risks involved with each position in our client portfolios. Some of the risks include the following:

- Stock Market Risk – stock markets can be cyclical, thus are subject to volatile swings in price
- Interest Rate Risk – the chance that a bond’s price will decline during times of rising interest rates
- Income Risk – a bond portfolio’s income level can fall due to falling interest rates
- Credit Risk – the chance of a bond issuer defaulting on a bond or failing to make interest payments
- Currency Risk – the chance that the value of a foreign security measured in US dollars will decrease due to an unfavorable move in currency rates

The portfolio management team at AFM monitors these risks and tries its best to mitigate such risks by diversifying our client portfolios in many sectors and asset classes according to the individual client’s objectives. This takes into account goals, risk tolerance and time horizon. However, no means of diversification can entirely eliminate the potential for loss.

### **Item 9: Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary actions against the firm. AFM and its employees have no reportable legal or disciplinary history.

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

One of AFM’s employees, Robert McLemore, is also a registered representative of brokerage firm Winslow, Evans & Crocker, Inc. (WEC). Mr. McLemore spends approximately 5-10% of his professional time working in this capacity for WEC. He does not receive any advisory fees or commissions from WEC for AFM client accounts or transactions. The only compensation AFM or its employees will receive from clients will be in the form of the investment advisory fees from the client, as detailed in Item 5, above.

### **Item 11: Code of Ethics**

As required by the SEC, AFM has adopted a Code of Ethics that is designed to ensure that the interests of our clients are placed ahead of those interests by AFM employees and AFM, in general. A summary of the code is as follows:

- The interests of clients will be placed first
- All personal securities trading will be conducted in a manner that seeks to avoid any actual or potential conflicts of interest or any abuse of an employee's position of trust and responsibility
- When trading in same securities, employees shall further consider such issues as liquidity and timing when making trades for their own or immediate family accounts.
- In all cases employees shall take reasonable care to ensure that client transactions are executed with price advantage. Special care will be taken when transactions involve thinly traded equities and equities with large spreads between bids and offers. The trades of employees are extremely rarely significant enough to affect the securities market.
- Employees are required to report all transactions in personal accounts to the compliance officer on a quarterly basis and a list of holdings on an annual basis.

The AFM Code of Ethics establishes rules of conduct for all employees. The purpose of the code is to prevent any activities which may give the appearance of conflict of interests, insider trading and other forms of prohibited or unethical business conduct. AFM has an affirmative duty of utmost good faith to act solely in the best interest of its clients. AFM and its employees are subject to the following specific fiduciary obligations when dealing with clients:

- The duty to have a reasonable, independent basis for the investment advice provided;
- The duty to seek best execution for a client's transactions;
- The duty to ensure that investment advice is suitable to meeting the client's individual objectives;
- A duty to be loyal to clients.

Employees are urged to seek the advice of senior management or the chief compliance officer for any questions about the code or the application of the code to their individual circumstances. The provisions are not all-inclusive; they are intended as a guide for AFM employees in their conduct. Exceptions may be granted to certain code provisions only in situations when it is clear beyond dispute that the interests of our clients will not be adversely affected or compromised.

Clients can obtain a copy of the AFM Code of Ethics upon request.



## **Item 12: Brokerage Practices**

AFM has relationships with three brokerage firms that have been determined to meet our brokerage requirements. They are TD Ameritrade Institutional, Fidelity Institutional Wealth Services and Winslow, Evans & Crocker (accounts are custodied at Pershing, LLC). AFM selects from these above brokerages to open client accounts.

### **Best Execution**

All client accounts that are set up on one of these platforms receive quality executions that are reviewed periodically by the firm to ensure that this continues. When deemed appropriate, AFM may aggregate securities of different clients for block trading where doing so will provide better execution for all the clients involved. When clients' accounts are aggregated, each account in the aggregation is charged or credited with the average price to the total blocked transaction. This ensures that no one client's account is provided higher priority than another.

As a general rule, we do not engage in agency cross transactions or principal transactions, whereby AFM buys securities for itself from or sells securities it owns to any client account.

### **Soft Dollars**

AFM has a soft dollar agreement with Winslow Evans & Crocker. A small portion of each transaction is set aside and used to pay for Telemet America research and other research subscriptions. Winslow Evans & Crocker offers discount commission rates as well as full service operations support. In certain transactions, the commission rates charged by Winslow Evans & Crocker are slightly higher than those charged by the other brokerage firms with which we have relationships. The research tools provided to AFM by this relationship are intended to benefit all AFM clients, not just those with accounts at Winslow Evans & Crocker.

While we do not have any soft dollar agreements with Fidelity or TD Ameritrade, we do receive proprietary research on these platforms. Clients that choose their own broker/dealer are subject to the rates of said broker/dealer, and we require them to sign a disclosure letter. This letter states that the client is choosing their own broker/dealer, is aware of that broker/dealer's fees, and is also aware that AFM offers alternatives.

### **Item 13: Review of Accounts**

All accounts are reviewed on an individual portfolio basis and also may be reviewed as part of our review of individual holdings. These reviews take place as part of the firm's weekly research meetings conducted by the portfolio management team made up of Andrew Novelline, Robert McLemore and William Novelline. In these meetings, after discussion, if a security is deemed to be a candidate for sale or purchase, we will review the portfolios that hold this security and make changes as needed.

In addition to these reviews, each client account is reviewed at least quarterly. This includes reviewing:

- The market value of the portfolios
- The suitability of the securities being held in a client account
- The weighting of securities in a client portfolio to ensure that no one security constitutes too large a position within the portfolio
- Recent activity in the portfolio

Any changes in a client's needs or investment objectives will also trigger a full portfolio review. This is usually part of the regular communication by phone, email or letter that the portfolio managers have with the clients.

### **Account Statements and Quarterly Appraisals**

Clients receive a monthly statement from the brokerage firm where the client's account(s) are custodied. This statement will include a list of portfolio holdings and transactions for the period. Duplicate confirmations of each trade are also sent to the client at the time of the transaction.

Clients are also sent a quarterly appraisal by AFM that details holdings, costs and current market values along with their quarterly invoices. These are sent out within 30 days from the end of the quarter. Accompanying the appraisal and the invoice is a letter written by one of the AFM portfolio managers that may include our thoughts on current market conditions and/or individual notes about changes to that specific client account in the prior quarter.

AFM advises clients to compare the statements they receive from AFM to the statement they receive from the custodian. Any material discrepancies should be immediately reported to AFM. Please note that some end of period valuations may be slightly different due to

accounting or systematic differences in the way the broker/custodian prices holdings and the way AFM prices holdings. This typically happens with the pricing of bonds and some foreign securities.

AFM also sends out an annual tax package that includes realized gains and losses, management fees paid, and income and expenses. The client will also receive an IRS Form 1099 from their qualified custodian.

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

AFM has been fortunate to receive many client referrals over the years. The referrals have come from current clients, estate planning attorneys, accountants, employees and other sources. The firm does not currently pay for referrals. If we were to enter an agreement that would compensate such referrals, the client would be fully informed in writing of the scope and nature of any such arrangement as required by the SEC.

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

All accounts of AFM are custodied at the brokerage selected by the firm or client. In the case where the client uses self-directed brokerages, those accounts are custodied at the brokerage of their choice.

AFM primarily collects management fees through the direct debiting from the clients' accounts. The client gives us this permission when the account is opened. For invoicing, the custodian's statement is the one used to determine the asset values. For tax and other purposes, the custodian's statement is the official record of the client's account. When the account is directly debited for fees, a copy of the invoice is always sent to the client. Clients should note that the custodian does not verify the accuracy of the AFM fees and that the client should always verify the accuracy of the fee that is charged.

For accounts where the client has not given AFM the authority to directly debit their account for management fees, we send the bill to them and they pay the fee directly. Clients are given the choice as to how they want their fees paid.

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

AFM's clients give the firm full discretionary authority to manage their investment portfolios. This means that we are given permission by our clients to make changes to the makeup of their portfolios without having to obtain the client's permission for each transaction we initiate. This does not mean that we don't have discussions about some of these changes with clients, but allows the firm to act in a timely manner when we believe changes should be made to the client's portfolio. Clients are encouraged to call us if they have any questions on a quarterly basis and changes that we suggest are discussed at regular client review meetings and in phone and email conversations with clients.

AFM clients are informed of this discretion when they sign the AFM contract at the outset of the client relationship. However, in a few rare exceptions, we agree to discuss any suggested transactions with clients prior to executing them.

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

Proxy voting is an important right of the shareholders and reasonable care should be taken by the clients to ensure that such rights are properly executed. AFM does not vote on proxy statements for our client securities. If our clients wish to vote on any matter related to securities held in the portfolio, they must do so on their own. Proxy statements and any other voting materials related to the matter are mailed directly to the clients from the brokerage firm that custodies their accounts. If our clients have questions related to a proxy or other related matter, they are encouraged to call us to discuss the matter.

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

AFM does not charge or solicit pre-payment of \$1,200 in fees per client six or more months in advance. Rather we charge on a quarterly basis as discussed in Item 5.

AFM does not have any financial condition that is reasonably likely to impair our ability to meet contractual obligations to clients.

## **Part 2B for Form ADV: Brochure Supplement**

### **Professional Staff**

AFM requires that portfolio managers have a minimum of a Bachelor's degree or a professional designation such as a CFA. A minimum of three years of experience in the finance industry is required. Together the three portfolio managers at AFM have over 85 years of investment experience.

None of our personnel has any disciplinary history.

Investment decisions and client service for clients are conducted by the following individuals:

#### **Andrew J. Novelline, CFA**

Andrew Novelline joined Abbot Financial Management in September 1999 as an investment advisor. He is the president and chief compliance officer for AFM.

Prior to that, he spent two years working for Thomas Real Estate Advisors, Inc. in San Francisco as a financial analyst and project manager. Mr. Novelline worked extensively on projects for the Pacific Stock Exchange and Stanford University. He also worked at First Call Corp. in Boston, Massachusetts as a research analyst.

Mr. Novelline is actively involved in the day-to-day management of client portfolios and assists in the firm's research efforts. He conducts periodic reviews with clients and is also responsible for the internal operations of the firm.

Mr. Novelline has the FINRA Series 65 and Series 7 qualifications and is a graduate of Boston College's Carroll School of Management. He has also been awarded his Chartered Financial Analyst (CFA) designation and is a member of the Boston Security Analyst Society and the CFA Institute.

#### **William T. Novelline, Jr., CFA**

William T. Novelline graduated from Boston College with a B.A. degree in economics in 1962. After graduating the University of Chicago Business School he began his career in finance with Loomis Sayles & Co., L.P., a leading Boston-based investment counseling firm. In 1973 he joined David L. Babson & Co. of Boston, where he served as a Senior Investment Analyst.

Mr. Novelline founded Abbot Financial Management in 1983, with the primary focus of providing investment counseling to individuals and smaller entities. Client service and communication are paramount in Mr. Novelline's business philosophy.

Mr. Novelline believes in remaining informed about the latest trends in the field of investment management. Mr. Novelline was awarded the Chartered Financial Analyst (CFA) designation and is a member of the Boston Security Analyst Society and the CFA Institute. He is also a founder and past president of the Bank Analyst Society of Boston.

### **Robert A. McLemore**

Robert McLemore is responsible for the day-to-day management of client portfolios. He conducts periodic reviews of accounts with clients and updates their investment objectives in one-on-one meetings, and assists in the firms' research efforts.

Mr. McLemore has been in the investment business since 1984. Before joining Abbot Financial Management in May 2000, he was a Financial Consultant with Solomon Smith Barney for thirteen years. While there, Mr. McLemore worked with high net worth clients and business owners, and has experience in the equities and fixed income markets. Prior to that, Mr. McLemore was an Account Executive with Merrill Lynch & Co. for three years.

Mr. McLemore is currently a registered representative of Winslow Evans & Crocker, Inc. and has FINRA Series 7, 24, 63, and 65 qualifications.

Before entering the investment business, Mr. McLemore was President of International Energy Engineering, Inc., a firm that provided consulting services to the electric power generation industry, as well as various other commercial and industrial clients. He is a graduate of Wentworth Institute of Technology in Boston, Massachusetts and is a Registered Professional Engineer.

### **Christine Allen**

Christine Allen joined Abbot Financial Management in January 2001. Ms. Allen is the Office Manager and is responsible for the firm's internal controls as well as handling client service requests of all kinds. Prior to working at Abbot, Ms. Allen was employed by Cornerstone Financial Group in Burlington, MA as Office Manager and Trading Desk Assistant. She has a BA in Psychology from Merrimack College, is FINRA series 11 certified, and is a Notary Public. Ms. Allen has also served as an elected official on the North Andover School Committee since 2007.