

## SIERRA INVESTMENT MANAGEMENT, INC

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### FORM ADV PART 2 BROCHURE

This brochure provides information about the qualifications and business practices of Sierra Investment Management, Inc. If you have any questions about the contents of this brochure, please contact us at 310/452-1887 or [www.sierrainvestment.com](http://www.sierrainvestment.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.

Sierra Investment Management, Inc. is a Registered Investment Advisor. Registration with the United States Securities and Exchange Commission does not imply a certain level of skill or training.



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## ADVISORY BUSINESS

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Sierra Investment Management, Inc. (Sierra) is a federally regulated registered investment advisor. Sierra and its employees are subject to the rules of the Securities and Exchange Commission (SEC) under the Investment Advisors Act of 1940, and subject to the anti-fraud provisions of the state jurisdictions.

### ■ Advisory Service

Sierra manages client investment accounts for a quarterly management fee. The client grants us a limited power of attorney authorizing us to create and manage an investment account using only no-load, load-waived and institutional class shares of publicly-traded mutual funds, and to transact purchases and sales in that account on their behalf. (To a limited extent, we perform comparable monitoring and risk management services for mutual fund "clones" held through variable annuity contracts.) We purchase funds in a very wide variety of asset classes, including, but not limited to, domestic and foreign stock, bond and commodity funds, as well as currency and real estate funds.

Through the use of proprietary risk-management strategies, Sierra tracks daily every fund held in client accounts. When a given holding declines enough to give a Sell signal under our proprietary strategies, we move all or a portion of that holding into a money market or similar "safe-haven" fund. When our system gives a Buy signal, we move assets back into the same fund unless we have made other choices in the interim.

### ■ Principals

Kenneth L. Sleeper, MBA, PhD and David C. Wright, JD, are the beneficial owners (through family trusts), officers and Managing Directors of Sierra.

### ■ Statement of Investment Goals

The investment goals for our managed accounts are:

1. To limit downside risk to 4%-5% even in a very adverse month or quarter in the investment markets; and
2. Generally to target an annual total return of 6%-8% after all fees, on average through a market cycle.

While there is no assurance that these goals can always be achieved, we believe that they are realistic based on our documented historical performance results.

## ■ Investment Programs

Our current minimum for a new client relationship is \$1,000,000 per household.

New clients meet with one of our Managing Directors for an in-depth discussion of their investment goals, risk tolerance and investment history. Together they select one or more of the following investment strategies.

### 1. Customized Accounts

The Customized Account groups are globally diversified among 8-20 stock, bond, commodity, currency and low-volatility mutual funds with an emphasis on total return. The overall asset allocation as well as the specific fund holdings may be changed at any time by the Managing Directors.

### 2. High Yield Corporate Bond Program

The High Yield Corporate Bond Program generally holds 3-15 high yield corporate bond funds and/or money market or similar "safe-haven" funds. The specific fund holdings may be changed at any time by the Managing Directors.

### 3. Municipal Bond Program

The Municipal Bond Program is available for clients with taxable accounts who are in a high tax bracket. This program provides Federal or Federal and CA state tax exempt dividend income. The specific fund holdings may be changed at any time by the Managing Directors.

### 4. Strategic Income Program

The Strategic Income Program is globally diversified among 8-20 mutual funds with an emphasis on total return and current income. The holdings include various types of bond funds and other income-oriented asset classes. The overall asset allocation of the program as well as the specific fund holdings may be changed at any time by the Managing Directors.

### 5. Balanced Program – closed to new investors

Current clients may participate in the Balanced Program which is globally diversified among 8-20 mutual funds. The overall asset allocation of the program as well as the specific fund holdings may be changed at any time by the Managing Directors.

### 6. Tax-Deferred Investment Program – closed to new investors

The Tax-Deferred Investment Program is composed of 6-10 mutual fund "clones" which are investment options available through the Prudential Variable Annuity. The investments are selected (and periodically upgraded) by the Managing Directors.

### 7. Private Placement Variable Annuity

Lombard International Life Assurance Company (Lombard) (formerly known as Philadelphia Financial Life Assurance Company) has selected Sierra Investment Management, Inc., as an approved advisor for their tax-deferred Private Placement Variable Annuity (PPVA). The PPVA is

available to qualified investors, defined as having either \$300,000 of annual income (if married) or \$200,000 (if single) for the last two years or \$1,000,000 in investable assets. In addition, the client must have a household total of \$1,000,000 of assets under management with Sierra.

Sierra is responsible for portfolio construction using only no-load, load-waived or institutional class, publicly traded mutual funds and for the application of Sierra's risk-limiting strategies. We are required to follow specific guidelines as set forth by Lombard with respect to diversification, compliance and client communications.

Sierra is not affiliated with Lombard and does not receive any commission or compensation of any kind from the insurance company.

A percentage of most Balanced and Strategic Income programs and Customized accounts can be invested in the Sierra Core Retirement Fund (Core Fund) and/or the Sierra Strategic Income Fund (Income Fund), which are managed by Wright Fund Management, LLC (WFM), an affiliate of Sierra. Each fund is registered as a series trust of Northern Lights Fund Trust, an investment company registered under the Investment Company Act of 1940. Mr. Wright is the Managing Member and Dr. Sleeper and Ms. Terri Spath, CIO, participate in most investment management decisions. Mr. Wright and Dr. Sleeper each own a 50% beneficial interest (through family trusts) in WFM. A client may choose to "opt out" of holding the Sierra mutual funds.

To the extent that a Sierra account holds a position in the Sierra mutual funds, Sierra's quarterly investment management fee will be reduced by the Sierra mutual funds' fee offset credit which is an amount equal to the management fees within the Sierra mutual funds and paid to Wright Fund Management, LLC, (an affiliate of Sierra) for that fraction of the Sierra account.

## ■ Assets Under Management

As of December 31, 2016, the assets under management on a discretionary basis were \$561,711,217; the total assets under management or advisement including our affiliates were over \$2.2 billion.

## FEES AND COMPENSATION

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### ■ Standard Fee Schedule

Our fee schedule is based on the total household account value. The investment management fee covers account custodial and transaction expenses. Fees are debited quarterly in advance from the account(s) specified by the client and apply to all managed account holdings including money market and interest-bearing account allocations. Sierra receives no other compensation, commissions or service fees.

Client relationships of more than \$2,000,000: 0.25% of the account value initially and at the start of each quarter thereafter, based on the account value on the last day of the prior month.

Client accounts under \$2,000,000 are debited according to the following schedule:

For the first \$500,000: 0.45% of the account value initially and at the start of each calendar quarter thereafter, based on the account value on the last day of the prior month.

From \$500,001 to \$2,000,000: 0.30% of the account value initially and at the start of each calendar quarter thereafter, based on the account value on the last day of the prior month.

Accounts that hold the Sierra Core Retirement Fund and/or the Sierra Strategic Income Fund will have their Sierra quarterly investment management fee reduced by the Sierra mutual funds' fee offset credit which is an amount equal to the management fee within those Sierra funds and paid to Wright Fund Management, LLC, (an affiliate of Sierra) for that fraction of their Sierra managed account.

#### ■ **Incentive Fee Schedule**

For accounts over \$1,000,000, at our option, we may offer an incentive fee schedule (which is also optional to that client) in compliance with applicable Federal (Section 205-3 of the Investment Advisors Act of 1940) and state regulations.

We earn no fee unless, on a cumulative basis for at least the prior 12 months, the Managed Return exceeds the Benchmark Return; our fee is then 25% of any cumulative excess over the Benchmark Return. "Benchmark Return" is the 91-day Treasury bill rate plus 1% annualized.

#### ■ **Additional Expenses/Fees**

On occasion, the Managing Directors may purchase a mutual fund for client accounts that has a short-term redemption fee. If we receive a "sell" signal in that fund or if the client sells that fund during the specified redemption period, the sale will result in a fee that is debited directly from the client's account.

#### ■ **Termination**

A client may terminate our investment advisory services at any time upon written notice (or telephone or verbal notice, in our sole discretion) and we will provide a pro-rata refund of that quarter's fee, less any actual costs incurred upon termination. Sierra may terminate investment advisory services after providing the client 30 days written notice. The account custodians, TD Ameritrade Clearing, Inc. (TDA) or Trust Company of America (TCA), may charge fees for accounts that are transferred "in-kind" to another custodian.



## PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

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As shown above in Fees and Compensation, Sierra offers to certain qualified clients an Incentive fee schedule in compliance with applicable Federal (Section 205-3 of the Investment Advisors Act of 1940) and state regulations as an alternative to our Standard fee schedule. Hypothetically, there is potential for a conflict of interest when a portfolio manager earns an incentive fee; the manager may be inclined to select higher risk investments in the hope of earning greater returns and thus earning higher income. At Sierra, we make no distinction among client accounts based on their fee schedule. All Sierra client accounts in the same program are managed in exactly the same way.

## TYPES OF CLIENTS

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We provide investment management services to retirees and other conservative investors. Accounts are typically registered as individual or joint, as IRA's, as retirement plans such as profit-sharing and defined benefit pension plans, as charitable foundations, as non-profit and for-profit corporations and as estate trusts.

Our current minimum for a new client relationship is \$1,000,000 per household. Adult children of existing clients may currently open an account with a minimum of \$500,000 per household.

## METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

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### ■ Methods of Analysis

Sierra uses proprietary, analytic approaches that include analysis of economic, fundamental, charting, cyclical and other technical data. We use websites, newsletters, financial newspapers, computer databases and government publications among other sources, to obtain financial information in order to analyze a wide variety of asset classes, mutual funds and ETFs.

We use several software programs to track and rank asset classes and funds with a view to creating portfolios that are likely to be productive, yet have overall low volatility due to moderate internal correlations. We also consider fundamentals in order to invest in asset classes that appear to have upside potential.

## ■ Investment Strategies

1. **Balanced and Customized** – Our investment strategy for the Balanced Program and Customized account groups employs multi-asset diversification in order to limit downside risk as well as to seek opportunities to enhance absolute return. The Managing Directors construct an asset allocation responsive to current market conditions, select no-load, load-waived and institutional mutual funds to populate each asset class allocation and then monitor each fund daily.
2. **High Yield Corporate Bond** – Our High Yield Corporate Bond strategy seeks to limit downside risk, while producing a satisfying return, employing a single-asset class. The strategy will be fully invested when there are many Buy signals in high yield corporate bond funds and will, at times, be fully in cash. The strategy diversifies among between three and fifteen no-load, load-waived and institutional high yield corporate bond mutual funds and each fund is monitored daily.
3. **Municipal Bond** – Our Municipal Bond strategy seeks to limit downside risk, while producing a satisfying return, employing a single-asset class. The strategy will be fully invested when there are many Buy signals in municipal bond funds and will, at times, be fully in cash. The strategy diversifies among at least four, and up to ten, no-load, load-waived and institutional mutual funds. In addition, we offer a California Municipal Bond program for California residents. All funds are monitored daily.
4. **Strategic Income** – Our Strategic Income strategy selects income-oriented asset classes with an emphasis on total return and current income, while limiting downside risk. The portfolios are constructed by the Managing Directors who globally diversify among asset classes including bond funds and other income-oriented asset classes. The Managing Directors select no-load, load-waived and institutional mutual funds and monitor each fund daily.

We are active managers for all of our accounts; we do not employ a passive, "buy and hold" strategy. When our risk-limiting strategy gives a Sell signal, we will move all or part of the client's assets temporarily into a money-market or similar "safe-haven" fund. When our discipline gives a Buy signal, we move assets back into the same fund unless, in the interim, the Managing Directors have identified a more attractive fund.

This strategy is applied to all accounts in all investment programs. Our strategy is not designed to buy at the bottom or to sell at the top of the market. Rather, we endeavor to participate in a substantial part of any sustained up-trend as well to step aside during most of a sustained downtrend.

Since the investment markets rise and fall in irregular patterns, most holding periods are less than one year, and on some occasions may turn out to be as brief as 20 days or less. Our management approach typically results in being in and out of a particular fund twice each year, on average. As a result, taxable accounts may incur significant short-term capital gains and losses.

## ■ Risk of Loss

Performance of individual client accounts during future periods will definitely vary. Some months and some quarters will result in negative performance; indeed, some future years may have negative performance. However, using our proprietary risk-limiting disciplines, our separately managed accounts have weathered significant market declines very well as compared to each strategy's Benchmark. However, past performance is no guarantee of future results.

## DISCIPLINARY INFORMATION

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Since inception, Sierra Investment Management, Inc. and its affiliates have had no legal or disciplinary events to report that are material to a client or prospect's evaluation of our firm's advisory business or our management integrity.

## OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

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Sierra has two affiliates which are also Registered Investment Advisors: Ocean Park Asset Management, Inc. (Ocean Park) and Wright Fund Management, LLC (WFM).

For a quarterly management fee, Ocean Park manages investment accounts for clients of unaffiliated Financial Advisors and shares the fees with those advisors or their firms. In addition, Ocean Park provides sub-advisory investment management services to other investment management firms under contractual agreements.

WFM manages the Sierra Core Retirement Fund and the Sierra Strategic Income Fund. Each fund is registered as a series trust of Northern Lights Fund Trust, an investment company registered under the Investment Company Act of 1940. Mr. Wright, Dr. Sleeper and Ms. Spath participate in most investment management decisions. Mr. Wright and Dr. Sleeper each own a 50% beneficial interest (through family trusts) in WFM.

A percentage of many Sierra client accounts is invested in the Sierra mutual funds. To the extent that these client accounts hold positions in the Sierra funds, the Sierra quarterly investment management fee is reduced by the Sierra mutual funds' fee offset credit which is an amount equal to the management fees within these funds and paid to Wright Fund Management, LLC (an affiliate of Sierra) for that fraction of the Sierra account.

Sierra receives administrative fees and reimbursement of certain business expenses from the two affiliates.

## CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

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### ■ Code of Ethics

Our Code of Ethics has been adopted pursuant to the requirements of rule 204A-1 under the Investment Advisors Act of 1940. A complete copy of our Code of Ethics is available upon request to any client or prospective client.

Our philosophy states that the client's interest is always foremost; we will always strive to do what is right for the client.

### ■ Participation in Client Transactions

Sierra and its personnel, may, on occasion, buy and sell for their own accounts some of the same mutual funds utilized in Sierra managed accounts, and mutual funds or ETFs used in the Core Fund or the Strategic Income Fund. There is no possible conflict with client transactions as pertains to mutual funds since they are priced daily after the markets close. As to ETF transactions, trading shortly ahead of clients (front-running) is prohibited. Any such person shall be "last in" and "last out" for the trading day when their trading occurs in close proximity to client trades. In addition, compliance policies are in effect so that no such transactions will affect prices to the managed accounts or to either fund.

All access persons (David C. Wright, Kenneth L. Sleeper, P. Joy Bunzel, Gira Patel, Marshall Quan and Terri Spath) are required to disclose all relevant personal securities holdings upon commencement of employment and annually thereafter. In addition, quarterly reports of personal securities transactions must be submitted whether or not any transactions have occurred. These reports are reviewed to identify potential conflicts of interest; if a conflict is identified, steps will be taken to address such a conflict.

We strive not to violate our fiduciary responsibility to our clients in any way.

## BROKERAGE PRACTICES

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Neither Sierra nor our affiliates select or recommend broker-dealers for commission-based client transactions.

Neither Sierra nor our affiliates receive research or other products or services in connection with client securities transactions ("soft dollar" benefits).

Neither Sierra nor our affiliates have any economic relationship with a broker-dealer that creates any type of material conflict of interest.

## REVIEW OF ACCOUNTS

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Each client account is reviewed at least once a quarter by Mr. Wright, Dr. Sleeper, Ms. Spath or a supervised person including P. Joy Bunzel or Gira Patel, and upon request from the client.

Each month, Sierra mails a current position report to each Sierra client. This report identifies all current holdings in the account, the number of units, the price per share and the total value for each position. Each quarter Sierra also mails a statement showing the calculation of the client's investment management fee.

TD Ameritrade Clearing, Inc. (TDA), the independent custodian of most Sierra accounts, provides written confirmation to all clients of each transaction in their account, usually within a week. TDA also provides a monthly statement to each client showing all positions and all transactions that have occurred during the month. The Trust Company of American (TCA) and variable annuity companies provide similar quarterly statements detailing activity within the account for that time period.

Each client can opt to receive trade confirmations and/or monthly account statements by email rather than U.S. postal delivery. Such transactions include confirmation of an account opening, each transaction that occurs in the account, and each addition to or withdrawal from the account by the client. In addition, each client can, if they so choose, view their account(s) 24/7 on the Internet.

During client review meetings, or upon verbal or written request, Sierra provides performance reports for the client's account(s).

## CLIENT REFERRALS AND OTHER COMPENSATION

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Sierra has several soliciting agreements with broker-dealers, financial planners, investment advisory firms and others, under terms that are fairly standard for such arrangements and in compliance with SEC Rule 206(4)-3, to provide investment management services for clients referred by such firms or individuals. We charge our standard fee schedule (see Fees and Compensation) with a share (ranging from 10% to 50%) of each collected fee going to the referring person or firm.

The referred client signs the "Financial Advisor Relationships: Disclosure of Compensation" form which states that the client is aware that there is an independent contractor relationship between Sierra and the referring firm or individual, that the referrer receives a specified percentage of the quarterly investment management fee paid to Sierra, and that no client is charged any differential for such arrangement. On occasion, an officer, Director or employee of Sierra may refer a client to the firm and may be compensated for this referral.

Sierra receives no economic benefit from any firm or individual (other than our clients) for providing investment management services.

## CUSTODY

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Sierra Investment Management, Inc. (Sierra) never takes physical custody or direct control of client securities or mutual funds, which are always in the custody of TD Ameritrade Clearing, Inc (TDA) or the Trust Company of America (TCA), or in the case of variable annuity accounts, the relevant insurance company.

The custodians send account statements monthly or quarterly directly to clients detailing all transactions within the account for that period. Monthly, Sierra sends a Current Portfolio Values Report to each client that lists the account holdings, number of shares, price per share and asset values. We encourage our clients to compare the account values between their custodian and Sierra's statements.

## INVESTMENT DISCRETION

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Our clients grant us a Limited Power of Attorney in order to execute buy and sell transactions within their accounts and to debit our quarterly investment management fees. The account custodians oversee the billing and debiting of our fees from client accounts.

A percentage of most client accounts is invested in the Sierra Core Retirement Fund and the Sierra Strategic Income Fund. The client can choose to opt out of any specific fund or asset class with reason; however, this option is rarely exercised.

## VOTING CLIENT SECURITIES

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Sierra does not vote proxies for any client holdings. Clients will receive proxies or other solicitations from the account custodian or the mutual fund company. We do not provide information or support for or against any solicitation.

## FINANCIAL INFORMATION

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Sierra does not require or accept prepayment of more than \$1,200 in fees per client, six months or more in advance.

## **PRIVACY NOTICE**

### **Sierra Investment Management, Inc.**

#### **What You Should Know**

We recognize the importance of keeping information about you secure and confidential. We do not sell or share your non-public personal and financial information with marketers or others outside our affiliated group of companies.

We carefully manage information among our affiliated group of companies to safeguard your privacy and to provide you with consistently excellent service.

We are providing this notice to you to comply with the requirements of Regulation S-P, "Privacy of Consumer Financial Information," issued by the United States Securities and Exchange Commission.

#### **Our Privacy Policy**

We are committed to protecting the non-public personal and financial information of our clients and former clients. We fulfill our commitment by establishing and implementing policies and systems to protect the security and confidentiality of this information.

We limit access to non-public personal and financial information about you to those personnel who need to know the information in order to provide products or services to you. We maintain physical, electronic and procedural safeguards to protect your non-public personal and financial information.

#### **Categories of Information We Collect**

We may collect the following types of non-public personal and financial information about you from the following sources:

- Your name, address and identifying numbers, and other personal and financial information on applications, client agreements or other forms or communications;
- Information about your account balances and financial transactions with us, our affiliated entities, or nonaffiliated third parties, from our internal sources, from affiliated entities and from nonaffiliated third parties; and
- Information about your account balances and financial transactions and other personal and financial information, from consumer credit reporting agencies or other nonaffiliated third parties, to verify information received from you or others.

### **Categories of Information We Disclose to Non-Affiliated Third Parties**

We may disclose your name, address and account and other identifying numbers, as well as information about your pending or past transactions and other personal financial information, to nonaffiliated third parties as necessary to administer and service your account(s).

We may disclose non-public personal and financial information concerning you to law enforcement agencies, federal regulatory agencies, self-regulatory organizations or other nonaffiliated third parties, if required or requested to do so by a court order, judicial subpoena or regulatory inquiry.

We do not otherwise disclose your non-public personal and financial information to nonaffiliated third parties, except where we believe in good faith that disclosure is required or permitted by law.

### **Information about Our Former Customers**

We do not disclose non-public personal and financial information about former customers to nonaffiliated third parties unless required or requested to do so by a court order, judicial subpoena or regulatory inquiry, or otherwise where we believe in good faith that disclosure is required or permitted by law.

**If you prefer that we not disclose nonpublic personal information about you to nonaffiliated third parties, you may opt out of those disclosures, that is, you may direct us not to make those disclosures (other than disclosures permitted by law). If you wish to opt out of disclosures to nonaffiliated third parties, you may contact our Chief Compliance Officer at (310) 452-1887 or contact [info@sierrainvestment.com](mailto:info@sierrainvestment.com).**

We will provide notice of our privacy policy annually, as long as you maintain an investment with us. This policy may change from time to time, but you can always review our current policy by contacting us for a copy.