

# Portfolio Management, LLC

2245 Texas Drive, Suite 300

Sugar Land, Texas 77479

281-494-1919

## Regulatory Brochure

March 27, 2017

The oral and written communications of a Registered Investment Advisor provide current and prospective clients with information that helps them evaluate an Advisor. This Regulatory Brochure, as required by law, provides information about the qualifications and business practices of Portfolio Management, LLC (“PortMgmt” or the “Advisor”).

Portfolio Management, LLC is a Registered Investment Adviser. Please note the registration of an Investment Advisor does not imply any level of skill or training, and 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.

For more information about PortMgmt, please visit our website: [www.portmgmt.com](http://www.portmgmt.com).

If you have any questions about the contents of this Brochure, please contact Richard Kranz at 281-494-1919 or [info@portmgmt.com](mailto:info@portmgmt.com).

Additional information about the Advisor is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

By law, the Advisor must ensure that clients receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of the Advisor's fiscal year.

This section of the Brochure (Item 2) is designed to discuss only specific material changes that have been made to the Brochure and provide clients with a summary of such changes.

**The only material change during this reporting period was the establishment of a website: [www.portmgmt.com](http://www.portmgmt.com).**

**As of December 31, 2016, the Advisor managed approximately \$120,000,000 in assets on a discretionary basis.**

A copy of the Advisor's full Brochure may be requested at any time by contacting Richard Kranz at 281-494-1919 or [info@portmgmt.com](mailto:info@portmgmt.com). The date of the Advisor's most recent annual update of this brochure is March 27, 2017.

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## Item 4 – Advisory Business

Portfolio Management, LLC (PortMgmt) is in the business of providing investment management services to individuals and organizations.

Richard Kranz is the sole owner of PortMgmt. He began his career in the financial services business in 1983, and has served as owner of the Advisor since inception in 1992.

PortMgmt's investment management services include the selection of investment vehicles and overall asset allocation of client portfolio, along with the continued monitoring and management of these assets on a discretionary basis.

PortMgmt offers two types of portfolio management services: portfolios custom designed for the specific and unique needs of a client, and model portfolios created to meet the typical needs of investors in a number of common categories. Some of the model portfolios are managed through Schwab Institutional Intelligent Portfolios ("SIIP"), an online platform hosted by Schwab Wealth Investment Advisory, Inc. ("SWIA").

For custom portfolios, the selection of investment vehicles by PortMgmt on a client's behalf is made by the Advisor based on its knowledge and understanding of the client's long-term goals, risk tolerance, time horizon and ongoing financial needs. Within agreed-upon asset allocation parameters, the client gives PortMgmt authority to determine the securities—and the timing and amounts of the securities—to be bought and sold.

For model portfolios, PortMgmt will match the needs, goals and risk tolerance of a client with model portfolios designed to meet the typical needs of similar investors. The client gives the Advisor authority to determine the securities—and the timing and amounts of the securities—to be bought and sold.

Through the SIIP program, PortMgmt offers clients a range of investment strategies carefully constructed and managed, each consisting of a portfolio of exchange traded funds ("ETFs") and a small cash allocation. The client's portfolio is held in a brokerage account opened by the client at SWIA's affiliate, Charles Schwab & Co., Inc. ("Schwab").

The SIIP program is described in detail in its Regulatory Brochure, which is delivered to clients by SWIA during the online enrollment process. The Advisor, and not Schwab, is the client's investment advisor and primary point of contact with respect to this program. PortMgmt is solely responsible for determining the appropriateness of the program for the client, choosing a suitable investment strategy and portfolio for the client's investment needs and goals, and managing that portfolio on an ongoing basis.

PortMgmt has arranged access to SWIA's technology platform and related trading and account management services for the SIIP program. This platform enables the Advisor to make the program available to clients online, and includes a system that automates certain key parts of the investment process.

The process includes an online questionnaire that helps PortMgmt determine the client's investment objectives and risk tolerance and select an appropriate investment strategy and portfolio. Clients should note that the Advisor will recommend a portfolio through the platform in response to the client's answers to the online questionnaire.

The program also includes an automated investment engine that is used to help manage the client's portfolio on an ongoing basis through automatic rebalancing and tax-loss harvesting (if the client is eligible and so elects).

With all accounts—whether custom or model portfolio—PortMgmt attempts to select investment instruments that are competitive in the financial marketplace in terms of current yield, safety of principal and/or future growth potential. Most investments are made with the expectation of maintaining an intermediate to long-term holding period unless compelling short-term considerations alter this strategy.

On an ongoing basis, PortMgmt monitors and evaluates each portfolio to determine if any assets require repositioning or rebalancing due to significant changes in market conditions, the availability of new alternative vehicles, unsatisfactory investment performance or investment management turnover.

## **Item 5 – Fees and Compensation**

For providing the investment management services as described above, PortMgmt charges a fee based on the amount of assets under management.

The standard fee for customized portfolios is 1/4 of 1% of the value of the managed assets at the beginning of each quarter. The standard fee for model portfolios is 1/4 of 0.50% of the value of the managed assets at the beginning of each quarter. Advisor fees are not set or supervised by any custodian.

All Advisor fees are automatically deducted from client accounts on a quarterly basis, and a prorated fee may be charged for any assets under management for a partial quarter.

PortMgmt may discount fees for custom portfolios at its discretion, and fees are subject to negotiation.

The client has five business days from the date of initial service to terminate the service without any cost. Thereafter, the client is free to discontinue his or her relationship with PortMgmt at any time, being eligible for a prorata refund of any unearned investment management fees paid during the quarter if written request is made.

PortMgmt's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which may be incurred by the client as the custody level. Clients may also incur other charges imposed by custodians, brokers, investment instruments, and other third parties, such as fees charged by managers, custodial fees, deferred sales charges, transfer fees, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds, exchange traded funds and unit investment trusts, for example, typically charge internal management fees, which are disclosed in a fund's prospectus.

Such charges, fees, and commissions are exclusive of and in addition to PortMgmt's fee, and the Advisor does not receive any portion of these other commissions, fees, and costs, if any. PortMgmt recognizes its fiduciary capacity of undivided loyalty to the client, and in this regard will place the interests of the client ahead of its own at all times. Investment management fees are the sole source of income to PortMgmt, and the Advisor earns more revenue when account expenses are kept low and client accounts go up in value.

Clients using the SIIP platform do not pay brokerage commissions to Schwab as part of this program. Schwab does receive other revenues in connection with the program, as described in the Program Disclosure Brochure.

## **Item 6 – Performance-Based Fees**

PortMgmt does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## **Item 7 – Types of Clients**

PortMgmt is available to provide portfolio management services to individuals, high net worth individuals, trusts, estates, corporate pension and profit-sharing plans, charitable institutions, foundations, endowments, municipalities, private investment funds, and other institutions.

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

PortMgmt primarily uses a long-term, asset allocation strategy to invest client portfolios. A target asset mix is established for each client account based on client goals, time horizon, and risk tolerance. Every portfolio is diversified among a number of investment categories. Individual investments are chosen mostly based on fundamental analysis, with some consideration paid to technical and cyclical factors. Periodic rebalancing of portfolios is an important part of the ongoing strategy.

Investment vehicles evaluated and supervised by the Advisor for custom portfolios include exchange-listed securities such as:

- common stocks,
- preferred stocks,
- corporate debt securities,
- certificates of deposit,
- municipal bonds,
- money market funds,
- mutual fund shares,
- exchange-traded funds (ETFs),
- unit investment trusts, and
- United States government securities.

Model portfolios will consist mostly of either no-load mutual funds or exchange-traded funds.

The main sources of information used by PortMgmt include third party research, financial newspapers and magazines, corporate rating services, published research materials, company reports and press releases, prospectuses, and filings with the Securities and Exchange Commission.

The initial asset allocation and ongoing management of a client's portfolio is conducted with care and diligence; however, PortMgmt cannot guarantee investment success. Investments are subject to various risk factors, including interest rate risk, market risk, financial risk, opportunity risk, and purchasing power risk.

Past performance of investments recommended by PortMgmt should not be construed as an indication of future results, and the client should recognize that financial markets can be volatile, objectives might not be met, and client portfolios may decline in value over any given time period. Investing in securities involves risk of loss that clients should be prepared to bear.

## **Item 9 – Disciplinary Information**

Registered Investment Advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to the evaluation of the Advisor or the integrity of the Advisor's management. There are no applicable disclosures for this Item for Portfolio Management, LLC.

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

PortMgmt is not involved in any other financial industry activities and is not affiliated with any other business entity.

## **Item 11 – Code of Ethics**

PortMgmt has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition on rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and

personal securities trading procedures, among other things. All supervised persons at the Advisor must acknowledge the terms of the Code of Ethics annually, or as amended.

Subject to satisfying this policy and applicable laws, PortMgmt and its employees may trade for their own accounts in securities which are recommended to and/or purchased for the Advisor's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of PortMgmt will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Employees will generally be investing in publicly available mutual fund shares, exchange traded funds, or listed securities widely traded on major exchanges, and these positions will normally be held to meet long-term investment objectives rather than for short-term trading purposes.

Under the Code, certain classes of securities (such as mutual funds and exchange traded funds) have been designated as exempt transactions, based upon a determination that trades in these types of securities would not materially interfere with the best interest of the Advisor's clients.

In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity on many types of securities. In order to avoid any possibility of affecting security prices, PortMgmt and its employees will not buy or sell any listed security, other than exchange traded funds, within five trading days of buying or selling the same security for a client.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with the Advisor's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs, if any, equally and receive securities at the same average price. PortMgmt will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis.

When trading errors occur, every effort will be made to ensure affected clients are made whole, restoring each client account to the position it should have been in had the trading error not occurred.

Employee trading is continually monitored under the Code of Ethics and should reasonably prevent conflicts of interest between PortMgmt and its clients. The Advisor's clients or

prospective clients may request a copy of the firm's Code of Ethics by contacting Richard Kranz at 281-494-1919 or [info@portmgmt.com](mailto:info@portmgmt.com).

## **Item 12 – Brokerage Practices**

For custodial, administrative and brokerage services, PortMgmt usually recommends the use of Charles Schwab & Co., Inc. ("Schwab"), a broker-dealer registered with the Securities and Exchange Commission, and a member of FINRA and SIPC. Schwab is an independent discount brokerage firm, and is not owned by or affiliated with the Advisor.

Schwab Advisor Services (formerly called Schwab Institutional) is Schwab's business arm serving independent investment advisory firms. Through Schwab Advisor Services, Schwab provides PortMgmt and its clients with access to its institutional brokerage services – trading, custody, reporting and related services – many of which services are not typically available to Schwab retail customers.

Schwab's brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which the client might not otherwise have access or that would require a significantly higher minimum initial investment by clients. Schwab's services described in this paragraph generally benefit the client and the client's account.

Schwab makes available various support services that help PortMgmt manage or administer client accounts. Other Schwab services relate to investment research, both Schwab's own and that of third parties. The Advisor may use this research to service all or some substantial number of clients' accounts, including accounts not maintained at Schwab.

Schwab's services are generally available on an unsolicited basis and at no charge to PortMgmt. These services are not contingent upon the Advisor committing any specific amount of business to Schwab in trading commissions or assets in custody.

The model portfolio accounts in the Schwab Institutional Intelligent Portfolios (SIIP) platform also use Schwab's brokerage and custodian services. While clients are required to use Schwab to enroll in the SIIP platform, the client decides whether or not to do so, and opens his or her account with Schwab by entering into an account agreement directly with

Schwab. If the client does not wish to place his or her assets with Schwab, then PortMgmt does not use the SIIP program for that client.

All clients of PortMgmt using Schwab as their custodian receive the same institutional commission rates (except no commissions are incurred by clients in the SIIP program). The Advisor believes these rates are very favorable based on comparative research, but PortMgmt does not control these rates. In addition, the Advisor pays the very same commission rates as clients for its own affiliated accounts at Schwab.

The Advisor may aggregate purchases or sales of securities among client accounts when it serves the best interests of the accounts. When such transactions are aggregated, all accounts will receive the average buy or sell share price for the transaction in question.

With respect to the SIIP program, PortMgmt does not pay Schwab fees for its services in connection with the program so long as the Advisor maintains \$100 Million in client assets in accounts at Schwab that are not enrolled in the program. If PortMgmt does not meet this condition, then the Advisor pays SWIA an annual fee of 0.10% (10 basis points) on the value of clients' assets in the SIIP program. In this regard, PortMgmt might have an incentive to recommend clients maintain their accounts with Schwab.

Despite the above potential conflicts of interest, PortMgmt believes the selection of Schwab as custodian and broker is in the best interests of its clients. This view is supported by the scope, quality, and price of Schwab's services and not Schwab's services that might primarily benefit PortMgmt. The availability of Schwab's products and services is not based on the Advisor giving any particular investment advice, such as buying particular securities for clients. PortMgmt does not receive any monetary compensation from Schwab or any other custodian.

Regarding the choice of custodians, the primary interest of PortMgmt is the use of a custodian who will competently hold and administer client assets and execute transactions on terms that are on advantageous an overall basis when compared to other available providers and their services. The Advisor recognizes its obligation to seek best execution for all security transactions, and is not involved in any directed brokerage arrangements. Clients are under no obligation to use the services on any particular custodian.

To avoid conflicts of interest, PortMgmt does not accept any of the following types of compensation from any investment company or financial institution: investment banking fees, underwriting fees, 12b-1 distribution fees, soft dollar arrangements, referrals, excessive gifts or entertainment, brokerage fees and commissions, or any other types of similar compensation.

## **Item 13 – Review of Accounts**

PortMgmt maintains a continual process of managing and administering each client account throughout the course of the year. Ongoing investment changes can be triggered by many factors, including significant changes in the financial markets and the availability of better investment opportunities, as well as changes to client cash flow needs, investment goals, and risk tolerance. All client portfolios are rebalanced at least twice a year.

PortMgmt makes every attempt to contact every client with a customized portfolio on a periodic basis (at least once a year) to report results and to determine if client needs, goals or risk tolerance have changed since the last contact. Depending on the needs of the client, periodic reviews might take place in person, in writing, by phone, or over the internet.

Most reviews include an analysis or overview of client investment positions, asset allocation, and portfolio performance (including comparisons to relevant benchmark indices). For taxable accounts, PortMgmt makes every effort to provide clients with supplementary tax information, including cost basis information, if needed to complete their tax returns.

Between reviews, the client is responsible for making the Advisor aware of any significant changes to the client's financial situation that would affect the client's investment strategy.

Most portfolio and tax reporting for model portfolios is provided through the Schwab website and other means of electronic delivery.

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

PortMgmt neither pays, nor receives payment for, any client referrals given or received.

## **Item 15 – Custody**

The client's custodian maintains custody of client assets, and PortMgmt does not have independent authority to withdraw monies from any client account.

Clients receive monthly or quarterly statements from the brokerage firm or other qualified custodian that holds and maintains client investment assets. Statements and trade confirmations might be sent via postal mail or electronically, depending on the preference of each client.

PortMgmt urges clients to carefully review account statements and compare such official custodial records to any reports the Advisor may provide clients. PortMgmt also recommends each client always check his or her January, April, July and October statements to make sure their management fees were correctly deducted each quarter.

## **Item 16 – Investment Discretion**

In most cases, PortMgmt receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives and risk parameters for the particular client account.

When selecting securities and determining amounts, the Advisor observes the investment policies, limitations and restrictions of the clients for which it advises. Any unique investment guidelines or restrictions must be provided by the client to the Advisor in writing.

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

Clients may vote the proxies for all of their investments under management or delegate this responsibility to PortMgmt. As a convenience to clients, the Advisor offers to vote all client proxies, and makes every effort to vote all proxies in the best interests of every client.

PortMgmt does not anticipate any conflict of interest will arise between the client and the Advisor in regards to proxy voting. The Advisor does not serve as an officer or director of any company that issues publicly traded securities, and does not engage in insider trading (trading on the basis on material, nonpublic information).

Clients may obtain a copy of PortMgmt's complete proxy voting policies and procedures upon request. Clients may also obtain information from the Advisor about how it voted any

specific proxies on behalf of their accounts. Clients enrolled in the SIIP program designate SWIA to vote proxies for the ETFs held in their accounts.

## **Item 18 – Financial Information**

Registered Investment Advisors who maintain custody of client assets or charge more than \$500 in fees per client more than six months in advance are required in this Item to provide certain financial information and disclosures about the Advisor's financial condition. PortMgmt does not fall in this category.

The Advisor is also not aware of any financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and PortMgmt has never been the subject of any bankruptcy proceeding.

## **Item 19 – Requirements for State-Registered Advisers**

PortMgmt is registered at both the federal and state level. No additional information is required for this Item. Information about principal officers can be found in the Brochure Supplement.

## BROCHURE SUPPLEMENT FOR:

Richard Kranz

Portfolio Management, LLC  
2245 Texas Drive, Suite 300  
Sugar Land, Texas 77479  
281-494-1919

March 27, 2017

This Brochure Supplement provides information about Richard Kranz that supplements the Portfolio Management, LLC Brochure. All Clients should have received a copy of that Brochure. Please contact Richard Kranz if you did not receive the Brochure for PortMgmt, or if you have any questions about the contents of this supplement.

### **Item 2- Educational Background and Business Experience**

Richard Kranz

Date of Birth: May 5, 1956

#### Education

International MBA degree, 1992  
Lansdowne University, London, England  
4.0 grade point average

MBA program, 1991  
University of Houston  
4.0 grade point average

B.A. degree, 1979  
University of Texas at Austin  
graduated Magna Cum Laude  
member, Phi Beta Kappa Academic Honor Society

### Business Background

Bank Trust Officer  
Ameritrust N.A. (now merged with JPMorgan Chase Bank)  
Houston, Texas  
May 1989 to January 1991

Certified Financial Planner, Registered Investment Advisor and NASD Series 7  
Stockbroker  
Financial Synergies, Inc., Houston, Texas  
February 1983 to May 1989

### **Item 3- Disciplinary Information**

Investment Advisor Representatives are required by law to disclose all material facts regarding any legal or disciplinary events that would be material to the evaluation of each supervised person providing investment advice. No information is applicable to this Item.

### **Item 4- Other Business Activities**

Richard Kranz is not involved in any other investment-related business activities.

### **Item 5- Additional Compensation**

Richard Kranz receives no additional compensation from outside sources.

### **Item 6 - Supervision**

Richard Kranz is the sole owner and supervisor of activities of Portfolio Management, LLC.