

**Item # 1 Cover Page**

**Form ADV Part 2A**

**March 31, 2017**

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This brochure provides information about the qualifications and business practices of Diversified Partners, Inc. If you have any questions about the contents of this brochure, please contact us at 888-833-0233. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC"), or by any state securities authority.

Additional information about Diversified Partners, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Item #2 Material Changes**

This item summarizes updates which we believe are material changes that have been incorporated in the brochure since Diversified Partners, Inc. last annual update on March 31, 2016.

There have been no material changes since the last annual update.

We will ensure that clients receive a summary of any material changes to this and subsequent brochures within 120 days of the close of the fiscal year.

A full copy of our brochure is available upon request. To receive a copy, free of charge, please contact us by telephone at 888-833-0233.

Additional information about Diversified Partners, Inc. also is available on the SEC's website at [WWW.adviserinfo.sec.gov](http://WWW.adviserinfo.sec.gov).

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**Item #3**

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#### **4. Advisory Business**

The purpose of this section is to provide a description of Diversified Partners, Inc. (“DPI”) and the types of advisory services DPI offers. DPI was established in 1993 as a registered investment advisor and is owned by Thomas J. Parker who is the President and sole shareholder. DPI serves as the General Partner for three private investment limited partnerships which invest in publicly-traded securities. The partnerships are the only advisory clients of DPI. As such DPI coordinates and manages all activities of the partnerships, arranges for the maintenance of records for the partnerships, the preparation and filing of its tax returns, supplies tax information to limited partners after the end of each fiscal year and offers advice on the selection of investment styles and money managers to manage the funds raised by the partnerships. DPI also offers advice on the initial allocation and subsequent reallocation of funds among the money managers selected. DPI provides investment advice only to the three limited partnerships mentioned above of which it is the General Partner. As of February 29, 2017 DPI had assets totaling \$113,941,600 managed on a discretionary basis.

#### **5. Fees and Compensation**

DPI does not receive compensation for its investment advice. However, as is required for a general partner by federal tax law, in exchange for its services as general partner, DPI receives a one percent (1%) interest in all items of income, loss, gain and credit. This compensation is payable solely in exchange for DPI’s services as general partner and is not compensation for investment advice. DPI would still receive this fee under the partnership agreements irrespective of whether it provided investment advice to the partnerships. DPI’s profit interest is payable following the close of the applicable year. DPI and its clients are in compliance with SEC Rule 205-3. Fees and expenses charged to participating limited partners in the private investment limited partnerships are described in the partnership offering memoranda. Brokerage practices are discussed in detail on page 7 of this document.

#### **6. Performance Based Fees & Side-By-Side Management – Not applicable**

#### **7. Types of Clients**

DPI has only three clients, which are limited partnerships, composed primarily of individuals, pension and profit-sharing plans, and Individual Retirement Accounts. DPI serves as General Partner of the limited partnerships.

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

*Risks:* The investment return and principal value of an investment in securities will fluctuate and thus when redeemed may be worth more or less than their original cost. Clients must be prepared to bear the risk of capital loss. Diversification may not protect against market risk. Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The securities of smaller less well-known companies can be more volatile than those of larger companies. Value stocks can perform differently than other types of stocks and can continue to be undervalued by the market for long periods of time. Foreign securities are subject to differences in accounting principles, interest rate, currency exchange rate, economic, and

political risks. Investing in emerging markets can be riskier than investing in established foreign markets due to increased volatility and lower trading volume.

*Investment Strategies:* DPI's investment strategy is based on the premise that, within the parameters of a balanced portfolio, diversification among equity management styles creates the potential for higher returns and reduced risk. DPI's investment strategy focuses on ways to provide diversification within the equity asset class. DPI concentrates its activities to provide for different styles of equity selection and different sizes of the typical companies in which money managers invest.

Equity management style analysis encompasses three basic style types: value investing, growth investing, and international investing. Value investing seeks out undervalued stocks of companies and attempts to profit as they become more fairly valued. Growth investing seeks to invest in stocks of companies which are growing rapidly and whose earnings show consistent or accelerating growth as a result. Since the world has moved towards a global economy international investing seeks to invest in stocks of companies located outside the United States.

Equity management size analysis encompasses three basic sizes of companies. Large capitalization equities which generally have a market capitalization over \$10.5 billion, medium capitalization equities whose market capitalization is over \$1.5 billion but less than \$10.5 billion, and small capitalization equities whose market capitalization is less than \$1.5 billion.

To take advantage of the cyclical nature of the different market segments and stock selection methods used by different money managers DPI selects for each partnership a minimum of four money managers who employ different stock selection methods and who buy different size companies within their portfolios. As investment cycles change and manager out performance makes the partnership portfolio substantially deviate from the original percentage balance of the managed accounts in the portfolio DPI may rebalance by taking assets from the manager whose style has been rewarded by the short term market and giving them to the manager whose style has not been rewarded by the short term market. DPI believes that using this strategy as investment cycles change provides the opportunity for increased returns and decreased volatility in the overall partnership accounts. Diversification does not protect an investor from market risk and does not ensure a profit.

*Methods of Analysis:* DPI selects investment managers who it believes share four key characteristics:

- A distinct investment methodology.
- Evidenced discipline in applying that methodology.
- Above average long term portfolio returns when compared to managers with similar styles.
- The administrative capacity to service the partnerships' accounts both from a marketing /communication standpoint and from an operational standpoint.

From time to time portfolios are rebalanced among money managers for reasons discussed in the paragraph above.

Managers may on occasion be considered for termination for the following reasons:

- Substantial deviation from stated style or philosophy of stock selection.
- Inability or unwillingness to service the Partnership's account on a timely basis.
- Changes in key portfolio managers or management.
- Sudden increase in assets under management which leads to decreased returns or diminished service.

- Below average long-term portfolio returns when compared to managers with similar styles.

## **9. Disciplinary Information - Not applicable**

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

Thomas J. Parker, the president of DPI, is also the sole owner and president of Advanced Financial Planning Corporation which owns Employee Benefit Services, Inc. (EBS). EBS provides retirement plan administrative services as a Third Party Administrator (TPA). Mr. Parker is also president of, and a securities principal with, Thoroughbred Financial Services, LLC ("TFS"). In addition Mr. Parker is a registered representative, an investment adviser representative and a licensed insurance agent of TFS which is a registered broker-dealer, investment adviser and insurance broker. Mr. Parker spends approximately 50% of his time in non-investment advisory activities for these two firms.

TFS is a broker-dealer and a registered investment advisor. TFS is under common control with, and is thus related to, DPI. DPI is the general partner of three partnerships. The partnerships are DPI's only advisory clients. The partnerships have entered into an arrangement with TFS whereby TFS is compensated for locating investors who participate in the partnerships as limited partners. DPI has a financial interest in said partnerships. This arrangement is fully disclosed in the offering memoranda.

TFS currently effects securities transactions for the limited partnerships and receives compensation in the form of commissions in such transactions. DPI selects money managers to manage the assets of its three partnerships. The money manager has the authority to select the broker-dealer through which partnership transactions are executed. In such cases, DPI, as general partner, is able to make a non-binding recommendation regarding the broker-dealer selection. DPI, acting for the partnership, has authority to direct the money manager to select a specific broker-dealer. In either instance, the broker-dealer selected may be TFS, a party related to DPI. In either instance the broker-dealer would have the right to set commissions rates without the specific approval of the partnership or the individual limited partners resulting in potentially higher transaction costs for the partnership, but the partnership would have the right to terminate arrangements with TFS in the situations where the partnership's recommendation was binding upon the money managers. When making recommendations for broker-dealer selection, DPI considers commission rates, ease of execution, and additional services available which benefit the client, in part due to the nature of the relationship of the broker-dealer to the partnerships and their limited partners. Any broker-dealer recommended by DPI offers customary commission rates, which may be competitive with those generally available through unrelated broker-dealers, and offers competitive terms of execution. The means of selecting the broker-dealer(s) used, the factors to be considered in the process, and the existence of a relationship between DPI and any broker-dealer that might be recommended for selection, are all disclosed in the offering memoranda for the partnerships.

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

DPI is an investment advisor registered with the SEC. The Investment Advisers Act of 1940 ("Advisers Act") requires all investment advisors registered with the Securities and Exchange Commission ("SEC") to adopt codes of ethics that set forth standards of conduct and require compliance with federal securities laws. This code of ethics is intended to reflect fiduciary

principles that govern the conduct of DPI and its supervised persons in those situations where DPI acts as an investment advisor as defined under the Advisers Act in providing investment advice to clients. It consists of an outline of policies regarding several key areas including: standards of conduct and compliance with laws, rules and regulation, protection of material non-public information and personal securities trading. It also consists of specific information and guidance that is provided in company-wide policies and procedures. A copy of the DPI code of ethics is available upon request.

DPI provides advice to 3 limited partnerships, of which DPI is the general partner. DPI does not receive compensation for its investment advice; however as is required for a general partner by federal tax law, in exchange for its services as general partner, DPI receives a one percent (1 %) interest in all items of income, loss, gain and credit. This compensation is payable solely in exchange for DPI's services as general partner and not compensation for investment advice. TFS is a broker-dealer and a related party to DPI. TFS effects securities transactions for the three partnerships which are the only advisory clients of DPI. TFS receives compensation in the form of commissions in such transactions. The partnerships have entered into an arrangement with TFS whereby TFS is compensated for locating investors who participate in the partnerships as limited partners. These arrangements are fully disclosed in the offering memoranda provided to limited partners prior to or at the time of purchase.

DPI does not recommend securities to clients nor does it buy or sell securities for client accounts. TFS does not invest in any securities it recommends to clients nor does it buy or sell securities for its own account that it buys or sells for client accounts. Thomas J. Parker is president of DPI and TFS owns investments in the three DPI limited partnerships mentioned above and, acting as a registered representative of TFS, may recommend the DPI limited partnerships to TFS brokerage clients. Mr. Parker may buy and sell individual securities in his TFS brokerage account after said securities are bought and sold by money managers managing funds in the partnership accounts. Mr. Parker's relationship to TFS and DPI is disclosed in the offering memoranda provided to limited partners prior to or at the time of purchase. The DPI Code of Ethics requires DPI employees to disclose all brokerage accounts held in their names and to complete a quarterly and annual trading report that discloses the securities traded in said brokerage accounts.

## **12. Brokerage Practices**

*Brokerage Selection/Recommendations:* When recommending broker-dealers for client transactions DPI considers commission rates, quality of execution, and additional services (e.g. administrative) available which may benefit the client. Any broker-dealer recommended by DPI offers commission rates which are generally competitive with those available through unrelated broker-dealers.

*Soft Dollars:* DPI is the sole general partner for three limited partnerships and in such capacity is responsible for selecting the investment managers for partnership assets, reviewing the performance of such investment managers and replacing investment managers in its sole discretion. DPI has an agreement with TFS for consulting services whereas TFS will perform services for or on behalf of DPI as requested from time to time. Such services consist of the following:

- At the request of DPI, TFS will review the universe of possible investment managers that might provide investment management services to the partnerships, including the

historical performance of such managers, and provide data relating to such managers to DPI;

- At the request of DPI, TFS will analyze the performance of specific investment managers previously selected by DPI and provide DPI with a comparison of such investment manager's performance as compared with peer groups as selected by DPI;
- At the request of DPI, TFS will meet with representatives of the investment managers or potential investment managers, and provide a verbal or written report to DPI as to the style, historical track record, history of personnel changes, an analysis of how disciplined such investment manager has been in maintaining its investment style and any other relevant information that may be requested by DPI.
- At the request of DPI, TFS will oversee the work of outside consultants retained by DPI including counsel, accountants, tax return preparers, actuaries and others.

In return for the services provided by TFS, DPI agrees to retain the services of TFS as the exclusive placement agent for units of the limited partnership interests in the three partnerships. In addition, DPI is responsible for reimbursement of all out of pocket fees and expenses incurred by TFS in connection with this agreement.

DPI has an incentive to select or recommend TFS for brokerage services based on DPI's interest in receiving the services provided by TFS outlined above which may result in client's not receiving the most favorable execution. Using TFS for brokerage services may cause clients to pay higher commissions than those charged by other brokers.

*Brokerage for Client Referrals:* DPI compensates TFS a broker-dealer and related party to DPI for referring prospects who participate in the partnerships as limited partners. DPI, acting for the partnership, has authority to direct the money manager to select a specific broker-dealer. In either instance the broker-dealer selected may be TFS an entity under common control with and thus related to DPI. TFS receives compensation in the form of commissions for trades directed to it by partnership money managers. DPI may have an incentive to select or recommend TFS based on the potential transaction compensation to be received by the related party rather than the client's receiving the most favorable execution of client transactions.

*Directed Brokerage:* In most instances money managers chosen by DPI to manage the assets of its three partnerships have the authority to select the broker-dealer through which partnership transactions are executed. DPI, acting for the partnership, has authority to direct the money manager to select a specific broker-dealer. In most instances, DPI selects or recommends TFS as the broker-dealer through which partnership transactions are executed after taking into account the factors described above and in part due to the relationship of the broker-dealer to the partnership and limited partners thereof. TFS is an entity under common control with and thus related to DPI. TFS is compensated by DPI for locating investors who participate in the partnerships as limited partners. In addition TFS receives compensation in the form of commissions for trades directed to it by partnership money managers. Note not all advisers recommend, request, or require their clients to direct brokerage. By directing brokerage DPI may forego benefits from savings on execution costs, transaction prices and commission rates as may otherwise be obtained through other broker-dealers therefore costing clients more money.

*Trade Aggregation (Bunching):* DPI does not aggregate orders for client accounts because partnership assets are divided among multiple money managers who trade independently of one another. However each money manager has the option to use trade aggregation which may result in more favorable execution. When money managers chosen by DPI to manage the assets of its three partnerships are directed to use TFS as the broker-dealer then often times they may be



unable to aggregate brokerage orders for the partnerships with orders for their other managed accounts resulting in potentially higher transaction prices, commission rates and execution costs thus costing the partnerships more money.

### **13. Review of Accounts**

DPI is the general partner of three limited partnerships, its only clients. DPI selects money managers to manage the partnerships' assets. There are four or five money managers supplying services to each partnership and their performance is reviewed on a continuous basis and reevaluated at least quarterly. The performance of the managers is compared to market indexes and other money managers. The allocation of assets among the managers is reevaluated and rebalanced (if necessary) at least annually and perhaps as frequently as quarterly. The reviews and reevaluations are conducted by DPI's president. DPI issues written reports to the individual partners on a quarterly basis. The reports include statements regarding the value of the individual partner's accounts, the performance of the partnership, and the performance of each of the partnership's money managers. Additionally, DPI ensures that an annual audited partnership financial statement is delivered each year to individual partners.

### **14. Client Referrals and Other Compensation**

DPI compensates TFS a broker-dealer and related party to DPI for referring prospects who participate in the partnerships as limited partners.

### **15. Custody**

Securities held in all partnership money manager accounts are held at qualified custodians. However, DPI is deemed to have custody of partnership funds or securities because of its role as general partner. DPI sends limited partners a quarterly letter summarizing the value of their partnership interest and ensures that an annual audited partnership financial statement is delivered each year to individual partners. The quarterly summary letters and audited financial statement should be carefully reviewed.

### **16. Investment Discretion**

DPI accepts limited discretionary authority on behalf of clients. DPI has the authority to determine the broker-dealer used by partnership money managers. DPI does not select the securities to be bought or sold or the amount of securities to be bought or sold in partnership money manager accounts. This information is disclosed in the private offering memoranda for the partnerships.

### **17. Voting Client Securities**

DPI does not vote clients' securities. The underlying partnership account managers are responsible for voting proxies in the securities held in their individual portfolios in accordance with their written Proxy Voting Policies and Procedures.

### **18. Financial Information - No disclosures.**