



## Informational Brochure

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This brochure provides information about the qualifications and business practices of Shearwater Capital, LLC. If you have any questions about the contents of this brochure, please contact us at 314-434-4750 and/or [contact@shearwatercapital.com](mailto:contact@shearwatercapital.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.

Additional information about Shearwater Capital, LLC is available on the SEC website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

## **Item 2 - Material Changes**

No material changes

**Item 3****Table of Contents  
Form ADV – Part 2A – Firm Brochure:**

Item 1 - Cover Page	Page 1
Item 2 - Material Changes	Page 2
Item 3 - Table of Contents	Page 3
Item 4 - Advisory Business	Page 4
Item 5 - Fees and Compensation	Page 5
Item 6 - Performance Based Fees and Side-by-Side Management	Page 6
Item 7 - Types of Clients	Page 7
Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss	Page 8
Item 9 - Disciplinary Information	Page 10
Item 10 - Other Financial Industry Activities and Affiliations	Page 10
Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	Page 10
Item 12 - Brokerage Practices	Page 11
Item 13 - Review of Accounts	Page 11
Item 14 - Clients Referrals and Other Compensation	Page 12
Item 15 - Custody	Page 12
Item 16 - Investment Discretion	Page 12
Item 17 - Voting Client Securities	Page 13
Item 18 - Financial Information	Page 13

#### **Item 4 - Advisory Business:**

Shearwater Capital, LLC (hereafter referred to as Shearwater Capital) provides investment management advice and investment supervisory services for individuals and families, high net worth individuals, qualified retirement plans, and trusts. Shearwater Capital was founded in 1999 by Jeffrey Brown and Eric Malden, who serve as the company's only principal owners. The Chief Compliance Officer is Jared Meese.

The company takes a scientific approach to investing with an emphasis on broad international diversification, tax efficiency and low fees. We believe that investing should involve a long term view and that stock selection and market timing generally do not add reliable risk-adjusted returns. Returns are sought through broadly diversified portfolios of domestic and international securities whose performance is based predominantly on passive asset class exposure. Our eligible security selection focuses primarily on mutual funds and exchange-traded funds with reasonable expenses and low turnover. The asset allocation strategy for each account is tailored to meet each client's unique financial needs.

An Investment Policy Statement (IPS) is prepared/tailored for each client, whether an individual, family or organization. The IPS includes relevant background information about the client, including the client's investment objectives, risk tolerance, investment time horizon, and unique financial circumstances. The IPS also describes an asset allocation model designed to meet these investment goals, while taking into consideration the client's personal characteristics and financial circumstances. The IPS is reviewed at least annually to determine if the client's situation has changed and whether the asset allocation strategy should be changed. The IPS can also be reviewed, and modified if necessary, any time at the client's request. Clients may impose restrictions on investing in certain securities or types of securities.

When appropriate, Shearwater Capital works with new clients to develop a plan to transition from a client's existing portfolio to the desired portfolio.

Shearwater Capital does not maintain custody of any client funds. We utilize outside third-party custodians for all client assets. The majority of our assets under management are held at TD Ameritrade Institutional where we have negotiated an agreement that we believe is beneficial for our clients. We also maintain some assets under management at other custodians, such as Vanguard and Charles Schwab. Shearwater Capital does not use wrap fee programs.

An Investment Management Agreement, signed by the client and a firm representative, provides Shearwater Capital with the authority to make trades on the client's behalf. As of March 2017, about 99.5% of the firm's clients, representing \$172.5 million dollars in assets under management, prefer to have Shearwater Capital manage their accounts according to the asset allocation strategy specified in the IPS, without direct input from the client prior to each trade. The remaining 0.5% of clients, representing \$1 million dollars in assets under

management, prefer to take an active role in the investment process, ranging from discussing the investment options before trades are placed to specifying which securities to buy or sell.

#### **Item 5 - Fees and Compensation:**

Shearwater Capital is a fee-only investment advisory firm, meaning that investment management fees are our only source of compensation. We are committed to keeping our fees below industry averages. Fees are charged quarterly according to the following annualized fee schedule:

<u>Account Size</u>	<u>Annual Fee</u>
<\$100,000	0.85%
\$100,000-\$250,000	0.75%
\$250,000-\$500,000	0.65%
\$500,000-\$1,000,000	0.55%
\$1,000,000-\$2,500,000	0.45%
\$2,500,000-\$5,000,000	0.35%
\$5,000,000-\$10,000,000	0.25%
> \$10,000,000	0.15%

The fee percentage is determined based on the total amount of assets under management for one family or household, regardless of the number of accounts. This is less expensive for the client than charging fees based on each account in isolation. An additional benefit is that we do not use a tiered or blended fee structure, which would apply a 0.85% fee to the first \$100,000, 0.75% to the next \$150,000, etc. Clients are charged the annual fee based on their total assets under management with Shearwater Capital, which results in a lower overall fee percentage.

At Shearwater Capital, we do not use a commission-based fee structure, in which the advisor or broker benefits from increasing the number of trades. We do not receive compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds. This prevents a conflict of interest and facilitates keeping the client's best interest as the only factor in security selection. The mutual funds we recommend are "no-load". Our fee-only approach aligns the company's goals with the client's goals, in that both parties benefit from a growth in the client's assets. Fees at Shearwater Capital are fixed.

TD Ameritrade Institutional, which is the primary custodian for our client accounts, charges a \$9.99 fee for each Dimensional Fund Advisor mutual fund trade, and a \$6.95 fee or less for each stock or exchange-traded fund trade placed in a client account. Shearwater Capital does not receive any portion of this fee.

Principals of Shearwater Capital are not charged annual fees on either their personal accounts or accounts of their spouses or children. Employees of Shearwater Capital and members of their immediate family may receive reduced fees.

Clients are invoiced at the beginning of each calendar quarter for investment management services provided over the previous quarter, based upon the value (market value or fair market value in the absence of market value) of the client's account at the end of the previous quarter. Each client receives a quarterly invoice showing the amount of the fee, the fee percentage, and the value of the client's assets on which the fee was based. Valuations are derived from recognized and independent pricing sources and determined by the custodian. New clients are charged a prorated fee for the portion of the quarter in which the new account was open. Clients do not pay fees in advance.

The Investment Management Agreement specifies the fee structure. Clients may provide written limited authorization to Shearwater Capital to withdraw fees from their accounts. Clients may also choose to pay their fees via credit card or personal check. An advisory client has the right to terminate the contract without penalty within five (5) business days after entering into the contract.

The Investment Management Agreement may be canceled at any time, for any reason, and by either party upon receipt of 30 days written notice. If a contract is terminated, the fees are prorated to cover only the dates during which investment management services are provided to the client.

All fees paid to Shearwater Capital for investment supervisory services are separate and distinct from the fees and expenses charged by mutual funds or exchange-traded funds to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and possibly a distribution fee. A client could potentially invest in mutual funds directly or through other brokers or agents that are not affiliated with the services of Shearwater Capital. In this case, the client would not receive the services provided by Shearwater Capital which are designed, among other things, to assist in determining which securities are most appropriate to each client's financial condition and objectives. The client should review the fees charged by Shearwater Capital and the fees charged by the funds to fully understand the total amount of fees to be paid by the client and to evaluate the advisory services being provided.

Clients may incur brokerage and other transaction costs – see Investment Brokerage Discretion.

#### **Item 6 - Performance-Based Fees and Side-By-Side Management**

Shearwater Capital does not receive or participate in performance-based fees based on receiving a share of capital gains on or capital appreciation of client assets.

**Item 7 - Types of Clients:**

Shearwater Capital primarily provides investment advice to individuals and families, although the firm will also work with companies, pension and profit-sharing plans, and non-profit organizations. The types of accounts managed by Shearwater Capital include, but are not limited to, the following:

1. Individual accounts (taxable)
2. Joint accounts (e.g., Joint Tenants With Right of Survivorship; Tenants-in-Common)
3. Trust accounts
4. Individual Retirement Accounts (IRAs)
5. Roth Individual Retirement Accounts (Roth IRAs)
6. Qualified retirement trust accounts (e.g., 401(k) plan accounts, profit-sharing plan accounts)
7. Cash balance plan accounts
8. Simplified Employee Pension Plan Individual Retirement Accounts (SEP IRAs)
9. Savings Incentive Match Plan for Employees of Small Employers (SIMPLE IRAs)

The minimum account size for a new client is \$50,000; however, this requirement can be waived at the discretion of the company Principals.

**Types of Investments:**

For most clients, we create a portfolio of no-load mutual funds tailored to the asset allocation strategy described in the client's Investment Policy Statement. Although we are free to select from a wide range of financial securities, we rely mainly on mutual funds offered by Dimensional Fund Advisors (DFA) to construct our client portfolios. DFA funds are not available directly to individuals, but are limited to institutional investors and clients of a select group of financial advisory firms. Each DFA fund is designed to capture the returns of a specific asset class, unlike index funds which merely replicate market indexes. DFA funds use innovative trading strategies and portfolio engineering to provide added value. DFA funds generally have lower portfolio turnover, lower annual fees and lower annual expenses than actively managed funds.

In addition to open end mutual funds, such as DFA funds, we also select from the following types of securities in constructing client portfolios:

1. Exchange-traded funds
2. Exchange-traded notes
3. Individual stocks
4. Corporate debt securities

5. Commercial paper
6. Certificates of deposit
7. Municipal bonds
8. Variable annuities
9. United States government bonds
10. Government bonds issued by other countries

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

Shearwater Capital's security analysis may be based on a number of factors including those derived from commercially available software technology, securities rating services, general market and financial information, due diligence reviews and specific investment analysis that clients may request. Shearwater Capital's main sources of information include commercially and/or publically available investment services, financial newspapers, periodicals and issuer-prepared information.

Shearwater Capital also receives historical market analysis, risk/return analysis, and continuing education from Dimensional Fund Advisors. Shearwater Capital's investment advice is based on long-term investment strategies incorporating the principles of Modern Portfolio Theory. Our investment approach is rooted in the belief that markets are relatively efficient and that investor returns are determined principally by asset allocation decisions. We build diversified client portfolios principally through the use of DFA funds that are available only to institutional investors and clients of a network of selected investment advisors.

All investment strategies involving equities entail some degree of risk of loss that clients should be prepared to bear. However, Shearwater Capital seeks to limit risk through broad global diversification. Shearwater Capital's investment philosophy is designed for investors who desire a buy and hold strategy, with an investment time horizon of five years or more. Shearwater Capital seeks to minimize brokerage and other transaction costs by avoiding frequent trading of securities whenever possible.

Although Shearwater Capital emphasizes a long-term, disciplined approach to investing, we also provide investment advice regarding short-term and intermediate-term holdings, based on the client's needs. For example, if a client is interested in saving for a down payment on a house in the next year or two, our investment advice will be tailored to meet those needs.

Margin accounts can be established at TD Ameritrade Institutional at the client's request. We usually advise clients against margin loans; however, in some circumstances margin loans provide a reasonable means of raising cash without having to sell the underlying securities. We generally advise clients interested in margin loans to limit the size of the loan and to repay it as quickly as possible.



## **Investment-Related Risks:**

Investors should keep in mind that there is no certainty that any investment strategy will be profitable or successful in achieving investment objectives, and that past investment performance is not indicative of future results. Examples of investment-related risks include, but are not limited to, the following:

- **Market Risk:** Political, economic, and social issues can cause the value of securities to fluctuate and possibly lose money.
- **Asset Class Risk:** Overweighting a particular asset class, such as value stocks or small cap stocks, may cause a portfolio to underperform the broad market averages at times or lose money.
- **Foreign Securities Risk:** Investing in foreign securities involves risks related to political, economic and social issues in those countries, which can cause these securities to change in value and lose money.
- **Foreign Currencies Risk:** Investing in foreign securities may expose investors to the risk that the currencies in which the securities are denominated may weaken relative to the U.S. dollar. This in turn may cause the securities to decline in value and the investors may lose money.
- **Tax-Efficient Investing Risk:** Tax strategies intended to minimize an investor's tax burden may result in lower investment returns. Furthermore, tax laws may change and tax-efficient investment strategies may fail to minimize taxes.
- **Commodities Investment Risk:** Commodity returns can be highly volatile and can be influenced by a variety of factors including interest rate movements, natural disasters, tariffs and embargoes. Commodities can rapidly change in value and lose money.
- **Fixed Income Risk:** Bond investments are subject to interest rate risk (a change in rates can decrease bond value), credit risk (the risk of default by the bond issuer), and call risk (in which a bond is redeemed by the issuer before the maturity date). Each of these risks can cause a bond or bond fund to lose value.
- **Regulatory Risk:** The government can change any number of laws, which can affect after-tax returns for different investments.
- **Country Risk:** Securities originating from a specific country may be volatile in isolation. Diversification is intended to minimize the effect of one country on the entire portfolio.
- **Emerging Markets Risk:** Securities from emerging economies can have highly volatile returns that are affected by multiple factors, such as political, economic, and social issues, currency fluctuations, and problems related to corruption and property rights.
- **Error Risk:** Errors in portfolio management, placing trades, and many other aspects of the investment process can lead to loss of money. For this reason, investment processes are checked regularly and carefully for accuracy.
- **Fund and Fund Company Risk:** There are risks associated with every investment fund and Fund Company. These risks are outlined in the investment prospectuses that are made available to each investor.

### **Item 9 - Disciplinary Information**

Since Shearwater Capital was founded in 1999, there have been no complaints filed against the company with state or federal regulatory agencies and no legal or disciplinary actions have been taken against the company or its principals or employees.

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

Management persons and employees of Shearwater Capital are not registered as broker-dealers or registered representatives of broker-dealers, futures commission merchants, commodity pool operators, commodity trading advisor or an associated person of the foregoing entities.

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

Shearwater Capital has adopted a Code of Ethics to assure adherence to the highest ethical standards from all people involved in company business and client interactions. The firm's principals, employees, independent contractors, registered representatives, and soliciting agents are required to sign and abide by this Code of Ethics. The complete Code of Ethics is available to any client by request. Its main points are noted below:

All employees, independent contractors and principals of Shearwater Capital agree that at all times, they will:

- Place the interests of every client ahead of their own interests;
- Protect the confidentiality of all personal client data;
- The Principals and employees of Shearwater Capital buy and sell securities for their own portfolios that are also recommended to clients. This represents a potential conflict of interest, which is mitigated by prohibiting front running. Investments by our principals and employees are in publicly traded securities and in volume or quantity not affecting price. Any deviation from this policy must be reviewed prior to investment by our compliance committee. All personal securities transactions are conducted in such a manner to avoid any abuse of an employee's position of trust and responsibility and in concordance with our company trading policies;
- Make all investment management decisions in an independent manner and in the client's best interest;
- Uphold an impeccable standard of honesty, integrity and professionalism;
- Comply with all state and federal securities laws;

This list is not meant to be all inclusive. In each and every scenario the company policy is to “do the right thing” ethically, honestly, and in the best interest of the client.

#### **Participation or Interest in Client Transactions:**

The Company Principals and Chief Compliance Officer each have a substantial portion of their own financial assets managed by Shearwater Capital. Their accounts are managed in a similar fashion to the client accounts and hold many of the same securities. On a given day, all trades for the Company Principals and Chief Compliance Officer accounts are placed either at the same time or after all client trades to avoid any potential benefit from the clients’ trades (referred to as “front-running”) or the potential to adversely influence the clients’ fill prices.

#### **Item 12 - Brokerage Practices**

Shearwater Capital does not receive other products or services other than execution from a broker-dealer or a third party in connection with client securities transactions (no soft dollar benefits). There are no markups or markdowns on client commissions higher than those charged by the broker-dealers for soft dollar benefits. See Investment Brokerage Discretion for further information below.

Shearwater Capital does not receive client referrals from any broker-dealers. Shearwater Capital does not aggregate the purchase or sale of securities for various client accounts. In all instances involving trade errors caused by Shearwater Capital, clients are made whole. If the correction of the trade error by the firm results in a loss, Shearwater is responsible for that loss. If a settled trade error results in a gain, the client keeps the gain. When multiple trades are corrected for the same client at the same time, the firm will net the result of each correction against each other. If a trading error occurs due to actions of Shearwater Capital and is detected prior to settlement, it is considered an “Advisor Account Trade Error.” The custodian will move the security into a separate error account. Any losses incurred on a correcting trade are paid by Shearwater Capital. Any net gains realized on an Advisor Account corrected trade will be donated to charity.

#### **Item 13 - Review of Accounts**

The performance of each client account is monitored on at least a quarterly basis. The asset allocation of each account is reviewed at least annually. The asset allocation of each account is compared to the target asset allocation noted in each client's Investment Policy Statement. One of the company principals is responsible for the review of all client accounts. Client accounts are also reviewed at the time of new security purchases or sales.

Each quarter, an account performance report and gain/loss statement is sent to every client. Quarterly reports include each account's beginning-of-quarter balance, net contributions, end-of-quarter balance and rate of return. A billing statement is included in each performance report. Clients also receive monthly or quarterly account statements directly from the account custodian. These statements provide details regarding the securities, transactions and cash positions within each account. A beginning and ending account balance also appears on the account statements.

#### **Item 14 - Client Referrals - Independent Contractors, Registered Representatives and Solicitors**

Shearwater Capital may enter into arrangements with third parties, including independent contractors, registered representatives and/or solicitors, to provide services on behalf of the firm. In some cases, these individuals may receive compensation, either directly or indirectly, for assistance in managing the client relationship. In all cases, this arrangement will be disclosed to the client who is referred to Shearwater Capital. In all cases, the independent contractor, registered representative and/or solicitor is also a client with assets at Shearwater Capital. The payment to the third party has no effect on the fee charged to the client.

#### **Item 15 - Custody**

Shearwater Capital clients maintain their funds at a third party custodian (TD Ameritrade, Vanguard, Schwab, etc.). The majority of our assets under management are held at TD Ameritrade Institutional where we have negotiated an agreement that we believe is beneficial for our clients. Clients receive monthly account statements directly from the account custodian. These statements provide details regarding the securities, transactions, billing fees and cash positions within each account. A beginning and ending account balance also appears on the monthly account statements. Clients are urged to carefully review and compare the account statements they receive from the qualified custodian with those they receive from Shearwater Capital.

#### **Item 16 - Investment Brokerage Discretion**

Client accounts are established in the client's name, or in the name of the appropriate trust, company, or non-profit organization. Shearwater Capital has discretionary trading privileges for each account including the selection of securities and the amount of securities to be bought or sold. (This discretionary authority is obtained after the client executes a limited power of attorney). However, Shearwater Capital does not hold or bundle client assets in our company name; specifically, client assets remain unbundled in individual client accounts in the individual client's name, or in the name of the client's trust or retirement plan, at the custodian. Shearwater Capital recommends broker-dealers with low transaction costs and efficient trade

executions. However, the client may select another broker-dealer of his or her choice. A client who chooses to designate use of a particular broker or dealer should recognize that commissions vary and may not be competitive with other broker-dealers or with commissions that other clients of Shearwater Capital may pay. Brokerage fees and transaction costs vary based on type of security, custodian, and broker dealer.

Security sales are not aggregated among different client accounts for purchase. Not aggregating orders can decrease or increase the cost of the transaction in different scenarios based on lower trading costs or increased volume pressure on a security price.

#### **Item 17 - Voting Client Securities**

Many securities provide voting rights to the owner of the asset. Shearwater Capital does not accept the authority to and does not vote proxies. Clients retain the rights and responsibility for receiving and voting proxies for all securities maintained in all client accounts. Clients also retain the rights and responsibilities for all legal proceedings involving companies whose securities are held or previously were held in the client's accounts, including, but not limited to, the filing of "Proofs of Claim" in class action settlements.

#### **Item 18 - Financial Information**

Shearwater Capital does not require prepayment of fees. Shearwater Capital has not ever been the subject of bankruptcy petitions. There is no financial condition that our Principals are aware of that would impair or limit the ability of Shearwater Capital's ability to meet contractual commitments to clients