

# Wrap Fee Brochure

March 8, 2017



This brochure provides information about the qualifications and business practices of Leonard Rickey Investment Advisors, P.L.L.C. (hereinafter "LRIA" or the "Firm"). If you have any questions about the contents of this brochure, please contact Benjamin J. Rickey at (509) 972-3686. 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 Leonard Rickey Investment Advisors, P.L.L.C. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Leonard Rickey Investment Advisors, P.L.L.C. is an SEC registered investment adviser. Registration does not imply any level of skill or training.

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## Item 2. Material Changes

This Item discusses only the material changes that have occurred since LRIA's last annual update on March 21, 2016. The Firm has amended Item 10 to reflect the fact that its supervised persons no longer serve as registered representatives of LPL Financial LLC and will no longer provide clients with securities brokerage services under a separate commission-based arrangement. The Firm has also amended Item 10 to reflect the fact that its supervised persons no longer serve as licensed insurance agents and will no longer provide clients with insurance products or services under a separate commission-based arrangement. The Firm has also amended Item 6 to clarify the Firm's technical strategy.

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## Item 4. Services, Fees, and Compensation

The Leonard Rickey Investment Advisors Wrap Fee Program (the “Program”) is an investment advisory program sponsored by LRIA.

While this brochure generally describes the business of LRIA as it relates to clients receiving services through the Program, certain sections also describe the activities of the Firm’s *Supervised Persons*, which refer to any officers, partners, directors (or other person occupying a similar status or performing similar functions), employees, or other persons who provide investment advice on LRIA’s behalf and are subject to the Firm’s supervision or control.

In addition to the Program, the Firm also provides investment management and financial planning services under different arrangements than those described herein. Information about these services is contained in LRIA’s Disclosure Brochure.

### Description of the Program

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The Program is offered as a wrap fee program, which provides clients with the ability to trade in certain investment products without incurring separate brokerage commissions or transaction charges. A wrap fee program is considered any arrangement under which clients receive investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and the execution of client transactions for a specified fee or fees not based upon transactions in their accounts.

Prior to receiving services through the Program, clients are required to enter into a written agreement with LRIA setting forth the relevant terms and conditions of the advisory relationship (the “*Agreement*”). Clients must also open a new securities brokerage account and complete a new account agreement with LPL Financial, LLC (“LPL Financial”), TD AMERITRADE (“TD Ameritrade”), or another broker-dealer LRIA approves under the Program (collectively “*Financial Institutions*”).

Clients’ investment portfolios are generally managed on a discretionary basis by either LRIA’s investment adviser representatives or an independent investment manager (collectively “*Independent Managers*”), as recommended or selected by LRIA. LRIA and/or the *Independent Managers* primarily allocate clients’ assets among the various investment products available under the Program, as described further in Item 6 (below).

### Fees for the Program

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Investment management services are offered through the Program on a fee basis, meaning that clients pay a single annualized fee based upon assets under management (“*Program Fee*”). The Firm also offers other advisory services outside of the Program under different fee arrangements than those discussed below.

The *Program Fee* is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by LRIA under the Program. The maximum *Program Fee* is 1.75%. LRIA, in its sole discretion, may negotiate to charge a lesser *Program Fee* based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

## Fee Debit

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LRIA's *Agreement* and the separate agreement with any *Financial Institutions* authorize LRIA or *Independent Managers* to debit the client's account for the amount of LRIA's fee and to directly remit that management fee to LRIA or the *Independent Managers*. The Financial Institutions that act as the qualified custodian for client accounts, from which the Firm retains the authority to directly deduct fees, have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to LRIA.

## Fees for Management During Partial Quarters of Service

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For the initial period of investment management services, the fees are calculated on a *pro rata* basis.

The *Agreement* between LRIA and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. LRIA's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to LRIA's right to terminate an account. Additions may be in cash or securities provided that LRIA reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to LRIA, subject to the usual and customary securities settlement procedures. However, LRIA designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. Where appropriate, LRIA consults with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

If assets are deposited into or withdrawn from an account after the inception of a quarter, the fee payable with respect to such assets will be prorated based on the number of days remaining in the quarter.

## Fee Comparison

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A portion of the fees paid to LRIA are used to cover the securities brokerage commissions and transactional costs attributed to the management of its clients' portfolios, as well as the fees charged by the *Independent Managers* engaged to provide services under the Program. *Independent Managers*

servicing accounts through the Program receive a fee based upon the assets under their management, which may range up to half of the Firm's total management fee.

Services provided through the Program may cost clients more or less than purchasing these services separately. The number of transactions made in clients' accounts, as well as the commissions charged for each transaction, determines the relative cost of the Program versus paying for execution on a per transaction basis and paying a separate fee for advisory services. Fees paid for the Program may also be higher or lower than fees charged by other sponsors of comparable investment advisory programs.

Because the Firm pays for the brokerage fees, the Firm has an incentive to engage in fewer transactions, or transactions that cost less to the Firm, and choose Independent Managers who fees fall outside the Program Fee.

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## Other Charges

Clients incur certain charges imposed by third parties in addition to the Program fee. custodians, trust companies, banks and other financial institutions. These additional charges include fees charged by the *Independent Managers*, reporting charges, margin costs, mark-ups or mark-downs priced in to fixed income products by the broker-dealer, charges imposed directly by a mutual fund or ETF in a client's account, as disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), fees and commission for assets not held with Custodian (such as 401(k) or 529 plan assets), fees for trades executed away from Custodian, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees.

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## Compensation for Recommending the Program

LRIA has no internal arrangements in place whereby persons recommending the Program are entitled to receive additional compensation as a result of clients' participation.

## Item 5. Account Requirements and Types of Clients

LRIA provides its services to individuals, trusts, estates, charitable organizations, corporations and business entities.

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## Minimum Fee

All accounts are subject to a minimum annual fee of \$1,200. This minimum fee may have the effect of making LRIA's services impractical for certain clients. LRIA, in its sole discretion, may waive its minimum annual fee based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities.

Additionally, certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than LRIA. In such instances, LRIA may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

## Item 6. Portfolio Manager Selection and Evaluation

Clients' investment portfolios are managed either directly by LRIA or through the use of certain *Independent Managers*, as referenced above.

### Advisory Business

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Clients can engage LRIA to manage all or a portion of their assets on a discretionary or non-discretionary basis.

LRIA primarily allocates clients' investment management assets among mutual funds, exchange-traded funds ("ETFs"), and individual debt and equity securities. In more limited circumstances, where appropriate, the Firm may allocate clients' investment management assets to independent investment managers ("*Independent Managers*"). LRIA also provides advice about any type of investment held in clients' portfolios.

LRIA also renders investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that may not be held by the client's primary custodian. In so doing, LRIA either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian.

LRIA tailors its advisory services to the individual needs of clients. LRIA consults with clients initially and on an ongoing basis to determine risk tolerance, time horizon and other factors that may impact the clients' investment needs. LRIA ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify LRIA if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon LRIA's management services. Clients may impose reasonable restrictions or mandates on the management of their account (e.g., require that a portion of their assets be invested in socially responsible funds) if, in LRIA's sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

## Use of Independent Managers

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As mentioned above, in limited circumstances where appropriate, LRIA may recommend that certain clients authorize the active discretionary management of a portion of their assets by and/or among *Independent Managers*, based upon the stated investment objectives of the client. The terms and conditions under which the client engages the *Independent Managers* are set forth in a separate written agreement between LRIA or the client and the designated *Independent Managers*. LRIA renders services to the client relative to the discretionary and/or non-discretionary selection or recommendation of *Independent Managers*. LRIA also monitors and reviews the account performance and the client's investment objectives. LRIA receives an annual advisory fee which is based upon a percentage of the market value of the assets being managed by the designated *Independent Managers*.

When recommending or selecting an *Independent Manager* for a client, LRIA reviews information about the *Independent Manager* such as its disclosure brochure and/or material supplied by the *Independent Manager* or independent third parties for a description of the *Independent Manager's* investment strategies, past performance and risk results to the extent available. Factors that LRIA considers in recommending an *Independent Manager* include the client's stated investment objectives, management style, performance, reputation, financial strength, reporting, pricing, and research. The investment management fees charged by the designated *Independent Managers*, together with the fees charged by the corresponding designated broker-dealer/custodian of the client's assets, are exclusive of, and in addition to, LRIA's investment advisory fee set forth above. As discussed above, the client incurs additional fees than those charged by LRIA, the designated *Independent Managers*, and corresponding broker-dealer and custodian.

In addition to LRIA's written disclosure brochure, the client also receives the written disclosure brochure of the designated *Independent Managers*. Certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than LRIA. In such instances, LRIA may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

## Performance-Based Fees and Side-by-Side Management

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LRIA does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

## Methods of Analysis

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LRIA's primary methods of analysis are fundamental, technical and cyclical analysis.

*Fundamental analysis* involves the fundamental financial condition and competitive position of a company. LRIA will analyze the financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors in order to



determine the recommendations made to clients. The primary risk in using fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

*Technical analysis* involves the analysis of past market data rather than specific company data in determining the recommendations made to clients. Technical analysis may involve the use of charts to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. The primary risk in using technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that LRIA will be able to accurately predict such a reoccurrence.

Cyclical analysis is similar to technical analysis in that it involves the analysis of market conditions at a macro (entire market/economy) or micro (company specific) level, rather than the overall fundamental analysis of the health of the particular company that LRIA is recommending. The risks with cyclical analysis are similar to those of technical analysis.

### **Investment Strategies**

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LRIA investment strategies focus on the use of diversification in an effort to optimize the risk and potential return of a portfolio. More specifically, multiple asset classes, investment styles, market capitalizations, sectors and regions are utilized to provide diversification.

There are three primary strategies employed by the Firm and detailed below: Asset Allocation Strategy, Stock Strategy and Technical Strategy. Based on a client's needs, though, LRIA may develop other model portfolios.

#### *Asset Allocation Strategy*

The Asset Allocation Strategy seeks to promote capital appreciation by seeking an appropriate balance of return potential and risk control. The portfolio is subject to minimal constraints and in general, the Asset Allocation Strategy portfolio is primarily made up actively managed mutual funds and ETFs. The majority of the portfolio is long term focused and rebalanced at least annually. A portion of the portfolio may be set aside to be tactically managed based upon the methods of analysis above. Tactical management is designed to take advantage of short-, mid-, and long-term opportunities the markets present or to manage risk in the portfolio.

#### *Stock Strategy*

The Stock Strategy is a quantitatively managed portfolio of individual equities. The selections are diversified across a range of industries. Each security is quantitatively ranked on a daily basis and is based upon multiple variables (may or may not include earnings growth, dividends and earnings surprises). If rankings fall outside of a threshold the security is sold and a higher ranked security is purchased. The strategy remains invested at all times.

## *Technical Strategy*

The Technical Strategy is a defensive strategy with an offensive component. It is a momentum based strategy that invests in Exchange Traded Funds (ETFs), and it is intended to capture growth when the market is rising and protect capital when the market is falling. A strict buy and sell discipline combined with qualitative and quantitative strategies are used to achieve the objective. The qualitative strategy is the fundamental analysis used to filter all the available investments down to the ones desired in the portfolio. Expenses, volume, correlation, sector and regional exposure are all reviewed. The quantitative strategy combines both time series momentum and relative strength momentum and ranks the investments based on past performance. In general, higher ranked investments are held in the portfolio.

## **Risks of Loss**

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### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

### *Market Risks*

The profitability of a significant portion of LRIA's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that LRIA will be able to predict those price movements accurately.

### *Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However,

certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

### *Management Through Similarly Managed Accounts*

LRIA may manage portfolios by allocating portfolio assets among various securities on a discretionary basis using one or more of its proprietary investment strategies (collectively referred to as “*investment strategy*”). In so doing, LRIA buys, sells, exchanges and/or transfers securities based upon the *investment strategy*.

LRIA's management using the *investment strategy* complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides similarly managed accounts, such as the *investment strategy*, with a safe harbor from the definition of an investment company.

Securities in the *investment strategy* are usually exchanged and/or transferred without regard to a client's individual tax ramifications. Certain investment opportunities that become available to LRIA's clients may be limited. LRIA allocates investment opportunities among its clients on a fair and equitable basis.

### *Use of Independent Managers*

LRIA may recommend the use of *Independent Managers* for certain clients. LRIA will continue to do ongoing due diligence of such managers, but such recommendations rely, to a great extent, on the *Independent Managers* ability to successfully implement their investment strategy. In addition, LRIA does not have the ability to supervise the *Independent Managers* on a day-to-day basis other than as previously described above.

### **Voting of Client Securities**

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LRIA is required to disclose if it accepts authority to vote client securities. LRIA does not vote client securities on behalf of its clients. Clients receive proxies directly from the *Financial Institutions*.

## **Item 7. Client Information Provided to Portfolio Managers**

In this Item, LRIA is required to describe the type and frequency of the information it communicates to the *Independent Managers*, if any, managing its clients' investment portfolios.

Clients participating in the Program generally grant LRIA the authority to discuss certain non-public information with the *Independent Managers* engaged to manage their accounts. Depending upon the specific arrangement, the Firm may be authorized to disclose various personal information including,

without limitation: names, phone numbers, addresses, social security numbers, tax identification numbers and account numbers. LRIA may also share certain information related to its clients' financial positions and investment objectives in an effort to ensure that the *Independent Managers'* investment decisions remain aligned with its clients' best interests. This information is communicated on an initial and ongoing basis, or as otherwise necessary to the management of its clients' portfolios.

## Item 8. Client Contact with Portfolio Managers

There are no restrictions on a clients' ability to contact and consult with LRIA.

Clients may contact *Independent Managers* through LRIA by providing LRIA with written request and identification of the questions or issues to be discussed with the *Independent Managers*. After receiving the client's written request LRIA, at its sole discretion, contacts the *Independent Managers* for the client or arranges for the *Independent Managers* and the client to communicate directly.

## Item 9. Additional Information

### Disciplinary Information

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LRIA has not been involved in any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management.

### Other Financial Industry Activities and Affiliations

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LRIA has nothing to report with respect to this item.

### Code of Ethics

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LRIA has adopted a code of ethics ("Code of Ethics") in compliance with applicable securities laws that sets forth the standards of conduct expected of persons associated with the Firm ("Associated Persons") LRIA's *Code of Ethics* contains written policies reasonably designed to prevent certain unlawful practices such as the use of material non-public information by the Firm or any of its Supervised Persons and the trading by the same of securities ahead of clients in order to take advantage of pending orders. The *Code of Ethics* also requires that certain of LRIA's personnel (called "*Access Persons*") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

LRIA and its associated persons are permitted to buy or sell securities that it also recommends to clients consistent with LRIA's policies and procedures. When LRIA is engaging in or considering a transaction in any security on behalf of a client, no *Access Person* may effect for themselves or for their immediate

family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) a transaction in that security unless:

- the transaction has been completed;
- the transaction for the Access Person is completed as part of a batch trade with clients; or
- a decision has been made not to engage in the transaction for the client.

These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by open-end mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more open-end mutual funds.

This *Code of Ethics* has been established recognizing that some securities trade in sufficiently broad markets to permit transactions by *Access Persons* to be completed without any appreciable impact on the markets of such securities. Therefore, under certain limited circumstances, exceptions may be made to the policies stated above.

Clients and prospective clients may contact LRIA to request a copy of its *Code of Ethics*.

### **Review of Accounts and General Reports**

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For those clients to whom LRIA provides investment management services, LRIA monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. Such reviews are conducted by one of LRIA's investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with LRIA and to keep LRIA informed of any changes thereto. LRIA contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

### **Account Statements and Reports**

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Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom LRIA provides investment advisory services may also receive a report from LRIA that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance as clients may request from time to time. Clients should compare the account statements they receive from their custodian with those they receive from LRIA.

### **Client Referrals**

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LRIA does not currently provide compensation to third-party solicitors for client referrals.

## Other Economic Benefit

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LRIA has arrangements in place whereby the Firm receives an economic benefit from a third-party for providing investment advice to clients participating in the Program.

Specifically, *LPL Financial* or TD Ameritrade may provide the Firm with computer software and related systems support, which allow LRIA to better monitor client accounts maintained at *LPL Financial* or TD Ameritrade. In addition, LRIA may receive travel, meals, entertainment, and admission to educational or due diligence programs. LRIA may receive the software and related support without cost because LRIA renders investment management services to clients that maintain assets at *LPL Financial* or TD Ameritrade. The software and related systems support may benefit LRIA, but not its clients directly. In fulfilling its duties to its clients, LRIA endeavors at all times to put the interests of its clients first. Clients should be aware, however, that LRIA's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence LRIA's choice of broker-dealer over another that does not furnish similar software, systems support, or services.

## Financial Information

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LRIA does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, LRIA is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. LRIA has no disclosures pursuant to this Item.



Prepared by:



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*The Adviser's Advisor®*