



3 Factor Indexing, LLC

## Firm Brochure

**This brochure provides information about the qualifications and business practices of 3 Factor Indexing, LLC. If you have any questions about the contents of this brochure, please contact us at 650-332-2478 or [bobs@3factorindexing.com](mailto:bobs@3factorindexing.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 3 Factor Indexing, LLC ("3 Factor") also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). 3 Factor Indexing's CRD number is 160356.**

**Please note that registration does not imply a certain level of skill or training.**

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### **Item 2. Material Changes**

On March 31, 2019, Annual Amendment - items regarding assets under management changed..

The full brochure is available to prospects and clients at any time. Please contact an advisor or request one directly from 3 Factor at 650-332-2478 or [bobs@3factorindexing.com](mailto:bobs@3factorindexing.com).

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## **Item 4. Advisory Business**

### **A. Description of the Firm**

3 Factor Indexing (“3 Factor”) was formed in 2011 to provide investment advisory services. 3 Factor provides investment management services. 3 Factor is owned by Robert Luxenberg, Edward Rodden and Arthur Shaw.

### **B. Types of Advisory Services**

3 Factor and its advisors primarily provide investment management of client portfolios. In providing advisory services, 3 Factor solely relies on information provided by the client and the client’s other professional advisors. We do not verify information provided; you are reminded it is in your best interest to provide all information requested and notify your advisor promptly of any changes.

#### **Investment Management**

Investment Management is provided to clients as a stand-alone service. Client portfolios are constructed with respect to the client’s established financial plan or their age, time horizon, risk tolerance and investable assets. 3 Factor representatives will manage client portfolios by directly choosing the securities, types of securities, and allocations for part or all of a portfolio.

#### **Limitations on Types of Investments**

3 Factor does not provide advice on alternative investments such as private placements, non-publicly traded securities, hedge funds, or similar types. Upon engaging 3 Factor, and owning such a position, the client will be informed of such limitations and may be provided with an opinion of the position.

### **C. Tailored Services and Client Restrictions**

Advisory services provided to clients are matched to the client’s needs. We determine the best portfolio or course of action for each client based on their hopes, goals, dreams, age, time horizon, risk tolerance, and investable assets. Clients may request portfolios be handled in a more aggressive or more conservative manner than recommended if they acknowledge the risks of doing so. Clients may request in writing certain securities or types of securities be restricted; however, if the advisor feels it will be detrimental to the portfolio, prevent proper servicing of the account, deviate from our normal services, or be of excessive burden, 3 Factor reserves the right to terminate the engagement.

### **D. Wrap Fee Programs**

We do not manage portfolios for wrap fee programs.

### **E. Assets Under Management**

As of December 31, 2018, 3 Factor Indexing managed \$132,064,063.68 across 193 accounts for 61 clients on a discretionary basis, and \$3,641,547.85 across 11 accounts for 7 clients on a non-discretionary basis.

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

### **A. Fee Schedules**

3 Factor Indexing charges fees in various formats including percent of assets under management, hourly, or fixed fee. Clients engaging 3 Factor for various services may be subject to a combination of these fees. 3 Factor Indexing offers services for a fee that may be more or less than that which can be had with other parties. Lower fees for comparable services may be available from other sources. Fees are generally non-negotiable. 3 Factor may charge a lesser or no fee to certain accounts for certain services after considerations including but not limited to future assets managed, value of assets managed, account composition, household accounts, client negotiations, family, etc. You may cancel your agreement with 3 Factor within five (5) business days from the date signed without penalty.

### **Investment Management Fees**

Investment Management fees are assessed for the management of assets provided directly by 3 Factor.

The fees, when assessed as a percent of assets, is the greater of the blended rate of 0.50% annually (0.125% quarterly) on the first \$3 million and 0.35% annually (0.0875% quarterly) on amounts above the \$3 million AUM billed quarterly in advance or \$625 per quarter. All deposits or withdrawals related to the initiation or termination of an advisory relationship will be billed (refunded) on a pro-rated basis regardless of value. Pro-rated fee calculations are based on calendar days. All accounts for a client household are aggregated.

In such case that hourly fees are agreed to and charged, the fee shall be \$275 per hour. When a flat fee or retainer is agreed upon and charged, it will vary depending on the services to be provided and may range to \$25,000 per year. When fees in excess of \$500 are collected the services agreed upon shall be delivered within six months.

### **B. Payment of Fees**

Client fees are due promptly after the invoice is presented.

Fixed or hourly fees are typically paid by check at engagement in full and each quarter in advance. For investment management clients, we may be able to withdraw fees from

a non-qualified account at the custodian with your permission and direction. In the case of hourly fees, if any are incurred, they shall be billed at the end of the month they were incurred. If you direct fees to be deducted directly from your account at a custodian, we will follow the requirements below when doing so.

Fees, with your permission, will be deducted directly from each of your accounts proportionally based on the total fee. Alternatively, you may request we deduct the fee from a specific non-qualified account at the custodian or you may request we accept a check for total fee via the provided online system.

When we withdraw fees from your account at the custodian we will:

- send you an invoice coincidentally or prior to submitting the fees to the custodian
- use a custodian that provides you with quarterly, at minimum, statements showing all disbursements, including the fees
- have received written permission from you to be paid directly from the accounts held at the custodian.

Payments are never to be made directly to an advisor representative; if you are requested to do so, please contact us.

### **C. Other Fees**

Fees stated are those of 3 Factor; fund expenses, transaction fees, account maintenance fees, third party manager fees, and any other fees are in excess and separate of 3 Factor's fees.

### **D. Prepayment of Fees**

As a normal course of business, 3 Factor collects fees in advance. Assessed fees to be paid in advance are potentially entitled to refunds upon receipt of a written request of termination. Calculation of refunds is described above in Item 5A.

### **E. Outside Compensation for the Sale of Securities**

3 Factor and its advisor representatives do not earn commissions or any compensation for selling you securities or other investment products, including asset-based sales charges or service fees from mutual funds

## **Item 6. Performance-Based Fees and Side-by-Side Management**

We do not charge based on performance.

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

3 Factor generally provides investment management services to individuals, families, trusts, and closely held businesses of theirs. The minimum household assets to manage is \$500,000; however, exceptions may be made on a case-by-case basis.

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

### **A. Methods of Analysis and Investment Strategies**

3 Factor's representatives generally engage in methods based in modern portfolio theory where the focus is on proper asset allocation and vast diversification through exposures to several asset classes. Securities utilized to accomplish this may be exchange traded products (ETFs or ETNs), mutual funds, separate account manager portfolios, equities, and bonds. When a packaged product (mutual fund or exchange traded product) is not utilized, fundamental analysis is typically used.

Sources of information may include newspapers and magazines (such as the *Wall Street Journal* or *Financial Times*), Morningstar reports, prospectuses, independent research reports (such as Argus, S&P, or Reuters), SEC filings, and annual reports.

**It should be noted: investing involves risk of loss that is borne by the investor. You should be prepared to bear such a risk.**

### **B. Material Risks**

Long and short term purchases may be used to implement certain strategies of asset allocation and attempting to control risk. We attempt to minimize transactions when possible in an effort to reduce transaction costs, taxes, and other potential expenses.

3 Factor may effect transactions in many different securities with various risks and attributes. Below is an informational listing of some, but not all, asset classes that are traded and some of their attributes and/or the concerns regarding trading as an individual trade or a block, especially if the block is not filled.

**Investing involves the risk of loss, including principle, which the client should be prepared to assume.**

### **C. Risks Associated with specific Security Types**

3 Factor aims to deliver widely diversified portfolios to client that may contain securities that involve greater risk than others. Generally, these securities account for smaller portions of the portfolio as a whole.

Trading activity in small cap and international securities is often more volatile and less liquid than that of large cap domestic securities. This may affect the price the client receives in the marketplace when independent or multiple transactions are made. Such

securities may be difficult to dispose of at an acceptable price or in a short time-frame when a client terminates an account or desires to raise cash.

3 Factor may recommend employing a Separately Managed Account (SMA) to invest in a particular asset class. When compared to the index they are intended to track, SMAs have a higher risk of tracking error.

Trading fixed income products is often hindered by illiquid markets and, in many cases, the absence of an exchange with market makers. Often there is only a limited quantity of an issue available for purchase or sale at a given time making block trading difficult or impossible. The bonds may be allocated to a single account, at the representative's discretion, when an account has a unique investment mandate, a specific need, or the allocation completes the position requirement. Alternatively, the purchase may be allocated at random. When it is infeasible to allocate fixed income securities across all accounts needed, an issue (potentially from a different issuer) of similar term, rating, credit enhancement, and structure shall be sought to fulfill the needs of the balance of accounts in a reasonable time frame to identify such an issue. Such securities may be difficult to dispose of at an acceptable price or in a short time-frame when a client terminates an account or desires to raise cash.

**Clients are advised, all investments incur risks including the following: Loss of Principal Risk, Interest-rate Risk, Market Risk, Inflation Risk, Currency Risk, Reinvestment Risk, Business Risk, Liquidity Risk, and Financial Risk.**

## **Item 9. Disciplinary Information**

3 Factor Indexing has not been involved in any disciplinary or legal events.

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

### **A. Registration as a Broker-Dealer or Representative of a Broker-Dealer**

Neither 3 Factor, nor its management, are registered, or have an application pending to register as a broker-dealer or a registered representative of a broker-dealer.

### **B. Registration as a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor**

Neither 3 Factor, nor its management, are registered, or have an application pending to register as a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor.

### **C. Relationships material to the Advisory Business**



3 Factor Indexing has no conflicts of interest regarding the advisory services offered to clients.

#### **D. Selection of Other Advisors and Compensation**

3 Factor does not recommend third party advisors, thus receives no compensation from anyone other than the client.

### **Item 11. Code of Ethics, Participation in Transactions, and Personal Trading**

#### **A. Code of Ethics**

We have a Code of Ethics that establishes ideals for ethical conduct grounded in the principles of transparency and honesty. Clients and prospective clients may request a copy of our Code of Ethics.

#### **B. Recommendations Involving Material Financial Interests**

We do not recommend securities in which we have a proprietary interest. We do not act as principal and trade against client orders. We are not general partners of an investment partnership or advisors to an investment company.

#### **C. Investment in Securities Recommended to Clients**

3 Factor, or a related person or controlling persons, may sometimes buy and sell for its own account securities that it recommends to its clients. Client interests are considered prior to placement of orders for 3 Factor representative's accounts. We do not believe that such transactions will have a significant impact on market prices of securities or client opportunities in those securities.

#### **D. Trading Securities with Client Transactions**

3 Factor, or a related person or controlling persons, may sometimes buy and sell for its own account securities that it recommends to its clients. If the client requests that 3 Factor enter trades for such securities, the client's trades are generally placed ahead of, or with, the firm even though a representative is permitted to have a same day transaction after a client trade in the same security. Advisor does not believe that such transactions will have a significant impact on market prices of securities or client opportunities in those securities. If, however, it is determined that transactions by the firm, or a related person, are likely to have a significant impact on market prices, no transactions will be allowed by such persons or any related persons until the client's transactions have been effected. Clients of 3 Factor are provided full disclosure and always have the unrestricted right to decline to implement any advice rendered on a non-discretionary basis

## **Item 12. Brokerage Practices**

### **A. Factors Used to Select Custodians**

3 Factor may recommend the services of brokers upon a client's request. Advisor will typically recommend the custodian they use most to best facilitate their client service. Such recommendations are based on client needs, total costs, ease of use for clients, and current location of client funds. This discretionary authority extends to the selection of external money managers for client accounts, though is not a normal course of business. These brokers/custodians commissions may be higher or lower than those charged by other brokers. 3 Factor does not receive any consideration from brokers in return for recommendations. The advisor has discretionary authority to determine the securities bought or sold, the amount of securities to be bought or sold, the broker or dealer to be used, and commission rate paid. 3 Factor and representatives understand the duty to achieve best execution for clients.

3 Factor will typically choose one custodian to hold client accounts, though in some cases may use multiple. Custodians are unaffiliated companies, which must be approved by 3 Factor's management. The custodian may provide varying levels of market analytics, research, quotes, market access, mutual funds, and technology to the advisor to assist in managing client funds, not specific to any individual account. Typically it will be the custodian or clearing broker of the custodian where the account is opened that will become the executing broker. In some cases, a prime brokerage, step-out, or DVP execution will be made for clients depending on need. Each custodian maintains a separate fee schedule; the custodian recommended to a client may have fees that are more expensive than other custodians. Clients who direct use of a non-approved broker may not receive the same fee schedule, execution quality, execution price (it may be better or worse) or other benefits of using a recommended custodian. Clients who can provide a "trading" or "limited power of attorney" to trade outside of an approved custodian will receive executions that may be greatly different than those of clients orders executed at an approved custodian or other directed broker. Alternatively, if a client wishes to utilize a directed broker he or she may enter the order him/herself and there may be a potential for price disparity between them and other clients. All recommendations to a client's company retirement plan are on a non-discretionary basis. The recommendation is made to the client and it is the client's responsibility to make the changes with their brokerage or administrator.

#### **1. Research and Other Soft Dollar Benefits**

3 Factor does not participate in "soft-dollar" programs. 3 Factor receives from each custodian access to their Institutional platform to facilitate the management of client accounts. Included in all Institutional platforms are varying levels of market analytics, research, quotes, market access, mutual funds reviews, and technology to the advisor

to assist in managing client funds, not specific to any individual account. While this presents a conflict of interest, these nominal ‘benefits’ received are used for the good of all clients in that they create economies of scale and efficiency, allowing our advisors to properly handle and service the number of accounts under their management.

## **2. Brokerage for Client Referrals**

3 Factor receives no referrals from broker-dealers or any third party in exchange for placement of client funds at a particular entity.

## **3. Directed Brokerage**

We strongly recommend use of the 3 Factor’s chosen custodian. In some cases, a prime brokerage, step-out, or DVP execution will be made for clients depending on need. Clients who direct use of a non-approved broker may not receive the same fee schedule, execution quality, execution price (it may be better or worse) or other benefits of using a recommended custodian. Clients who can provide a “trading” or “limited power of attorney” to trade outside of an approved custodian will receive executions that may be greatly different than those of clients orders executed at an approved custodian or other directed broker. Alternatively, if a client wishes to utilize a directed broker he or she may enter the order him/herself and there may be a potential for price disparity between them and other clients. All recommendations to a client’s company retirement plan are on a non-discretionary basis. The recommendation is made to the client and it is the client’s responsibility to make the changes with their brokerage or administrator.

## **B. Aggregation of Trades and Block Trading**

Depending on the nature of the advisory relationship, transactions may be either executed independently or may be entered into a block, or batch trade, where all eligible clients will receive the same execution price. Note the transactions fees levied by custodians for execution services may be a flat or minimum rate; therefore, the per-share cost may vary per client and account. Generally, transactions will be effected independently. Independently executed trades will potentially receive prices different than those of other clients and those differences may be substantial depending on the timing of order entry. Independent transactions may be the result of use of a client directed broker, specific client reviews, or use of a non-block trading system, even if such is available. Individual trades such as mentioned are subject to receiving differing prices than similar orders entered in the same day. Executions related to the establishment of an account, termination of an account, addition of funds, and/or withdrawal of funds are likely to be traded independently and thus may not receive like transactions to other accounts.

The advisor may, but is not required to block or batch trades. A block trade will be used when the representative intends to trade the same security on the same side for several accounts at approximately the same time. If an advisor uses a block trade to execute a

trade for multiple clients it shall be allocated as if each client had separate orders then aggregated to create the block. The percentage of the client's portfolio being transacted may differ substantially, with some accounts receiving no shares, due to the varying investment goals, client needs, and restrictions that may have been requested among other factors. If a block trade is partially executed, meaning the total shares attempted were not executed, the allocation to each client will be reduced proportionally. In such case as the reduced allocation to a client account is deemed by the advisor to be too small, not cost effective, and/or of minimal impact to the portfolio the representative may use his or her discretionary authority to allocate those shares to other client accounts as if the order was not entered on said client's behalf. Alternatively, if only a small percentage of the original order is executed, the smaller positions or accounts may be filled with shares from the reduced execution based on the advisors discretion regarding the potential affect a minimal amount of shares may have on a particular account. 3 Factor will make every effort to distribute all shares in the proportions as originally planned. When entering a block trade with the custodian in the same issue and side and there are trades to be executed away from the custodian, the block shall be sent to the market first. Subsequent independent transactions may not receive the same price as discussed above.

## **Item 13. Reviews of Accounts**

### **A. Frequency and Nature of Reviews**

Client accounts are reviewed no less than annually by Robert Luxenberg or Robert Sawyer. Registered investment advisor representatives who are part of 3 Factor management may periodically conduct random account reviews. Accounts will be reviewed by a minimum of one representative. Each reviewer is responsible for between 1-50+ clients each. Reviewers will be instructed to identify inconsistencies between the current holdings, the target holdings, market conditions, opinions, expectations, and any new suitability information to the clients' accounts.

### **B. Other than Periodic Review Triggers**

Review triggers may include updated information from clients that may materially change their objective, life events, relatively large market movements, addition or withdrawal of funds, revised expectations, and any new suitability information to the clients' accounts.

### **C. Content and Frequency of Regular Reports Provided to Clients**

Statements are issued at least quarterly or after completed transactions by the custodian as applicable rules and regulations may apply. 3 Factor will provide regular performance and/or portfolio analysis reporting on a quarterly basis via email.

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

### **A. Economic Benefits Provided by Third Parties for Advice to Clients**

3 Factor and its representatives receive no compensation or economic benefit, directly or indirectly, from any source for advice rendered to clients except as described in Item 12A-1.

### **B. Compensation Paid for Client Referrals**

3 Factor does not make use of Solicitors.

## **Item 15. Custody**

3 Factor Indexing does not take custody of client funds at any time. Custody of client accounts is held at a “qualified custodian” per SEC Rule 206(4)-2(d)(6), or similar state statutes and rules. Clients will receive account statements directly from the custodian and should carefully review the statements.

## **Item 16. Investment Discretion**

We provide investment management services on a discretionary basis. This allows 3 Factor to determine and execute a course of action in a client’s portfolio without first consulting you. Discretionary authority facilitates trading in your accounts on your behalf so we may promptly implement an investment strategy. The standard 3 Factor Investment Advisor Contract and custodian application forms include a limited power of attorney to conduct discretionary trading in client accounts. We may facilitate a non-discretionary account on a case-by-case basis determined by the advisor and agreed to in writing.

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

3 Factor and its representatives will not accept voting authority and at no time should be requested to provide a recommendation regarding proxy voting. Clients will receive proxies directly from the issuer and should directly contact the issuer with questions.

## **Item 18. Financial Information**

### **A. Balance Sheet**

We do not require or request prepayment of more than \$500 in fees per client more than six month in advance. Therefore, 3 Factor is not required to include a balance sheet.

### **B. Financial Condition**

3 Factor has no financial impairments that would preclude us from meeting our contractual commitments to clients.

### **C. Bankruptcy in the Past Ten Years**

Neither 3 Factor, nor its management, have been subject of a bankruptcy filing in the past ten years.

## **Item 19. Requirements for State Registered Advisors and ADV Part 2B Information**

Ed Rodden is the CEO of 3 Factor Indexing

### **A. Educational and Business Background of Mr. Rodden**

Mr. Rodden holds a Bachelor of Arts from Princeton University and a MBA from Stanford Graduate School of Business.

Ed is CEO of 3 Factor Indexing and a Partner with Silicon Valley Consulting (since 2008). Prior to this, Ed was an executive with HRJ Capital (2005-2008) and a registered representative with Inter Securities (2006-2008).

Previously he was a Senior Vice President at Charles Schwab & Co (1993-2005) and was employed at McKinsey & Co. (1991-1993).

### **B. Other Business Activities**

Ed Rodden is a Partner of Silicon Valley Consulting where he engages in Business Strategy Consulting. These activities take approximately 90 hours per month, of which about 45 hours is during trading hours.

### **C. Performance-Based Fees and Additional Compensation**

3 Factor does not charge performance fees.

### **D. Disciplinary Information**

There are no disciplinary actions to disclose for any employees.

#### **1. Arbitration**

Mr. Rodden has never been involved in an arbitration claim.

#### **2. Civil and Administrative Proceedings**

Mr. Rodden has never been found liable in a *civil, self-regulatory organization, or administrative proceeding* of any kind.

### **E. Relationships with Issuers of Securities**

We do not have any relationships with issuers of securities.

### **Supervision**

Robert Sawyer is CCO of 3 Factor Indexing and responsible for oversight of the firm's practices. Robert Sawyer is responsible for the supervision of Ed Rodden's advisory practices.

**CCR Section 260.238 (k)**

A material conflict of interest exists when the firm, its representatives or its employees could reasonably be expected to be impaired in rendering unbiased or objective advice. Conflicts of interest generally include compensation arrangements; other industry activities or affiliations or participation in client transactions. We assure you all material conflicts regarding the Advisor, its representatives, or its employees are disclosed here.