

# **LAWRENCE W. KELLY & ASSOCIATES**

**Lawrence W. Kelly & Associates, Inc.  
Form ADV Part 2A – Disclosure Brochure  
March 27, 2024**

199 South Los Robles Avenue  
Suite 850  
Pasadena, CA 91101  
626.449.9500

This brochure provides information about the qualifications and business practices of Lawrence W. Kelly & Associates, Inc. If you have any questions about the contents of this brochure, please contact us at 626.449.9500. 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 Lawrence W. Kelly & Associates, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2: Material Changes**

There are no material changes to report since last filing.

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## **Item 4: Advisory Business**

### **The Company**

Lawrence W. Kelly & Associates, Inc. (“LK&A Investment Counsel” or “LK&A” or “the firm” or “we”) was founded in 1985 by Lawrence W. Kelly. The firm currently has two senior portfolio managers, Nicholas J. Welsh and Michael C. Stewart, who work together as a group managing the firm's client portfolios. The firm is owned by Mr. Welsh. Mr. Welsh is the firm's chief executive officer. Mr. Stewart is the firm's chief compliance officer.

### **Advisory Services**

We provide individualized investment advisory services tailored to the individual client's investment goals. We continuously monitor clients' accounts and give continuous investment advice to and exercise investment discretion over clients' accounts. We base our advice upon the clients' individual needs and their particular financial situation, taking into account the nature and extent of their other assets, as well as the nature and extent of the personal and financial circumstances of each client.

At the beginning of the advisory relationship, we develop an individualized investment plan through consultation with the client. The resulting investment plan contains both the client's investment objectives and any restrictions or unique circumstances imposed by the client regarding our management of the client's account. Client imposed restrictions can include limitations on the types of investments, special provisions with respect to the recognition of gains or losses and other types of unique investment related objectives. This jointly developed investment plan is typically outlined by the firm in a written letter. We directly consult with our clients on their investment goals and their personal and financial situation to update their investment plan, as circumstances require or as clients may desire. Changes in clients' investment objectives and special provisions are typically discussed in our quarterly letter to our clients.

We manage balanced accounts, which include both equities and fixed income securities, as well as accounts with either stocks or bonds exclusively. See Item 8 for more information on our investment strategies.

### **Assets under Management**

As of December 31, 2023, LK&A managed \$510 million in assets, all of which was managed on a discretionary basis.

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

### **Account Management Fees**

Our fees for investment management services are based on a percentage of assets under management. All fees on new accounts are payable quarterly in advance. Our fee is based on a valuation of the account on the last business day of the prior quarter or the start of our management services. Most fees are deducted from the client's account as authorized by a client's written standard authorization with the custodian. However, a client can elect to pay its investment management fees itself upon receipt of LK&A's invoice. LK&A provides clients with quarterly fee invoices containing the portfolio value and fee calculation. Fees for partial periods are pro rated based on the number of days in the partial period as compared to the number of days in a complete calendar quarter. In the case of an account termination, any excess fees collected are automatically rebated to the client. Below is our standard fee schedule:

<b>Assets Under Management</b>	<b>Annual Advisory Fee</b>
First \$10 million	1.00%
Next \$10 million	0.75%
All additional amounts	0.65%

We reserve the right to negotiate fees. Some clients pay more or less than others depending on various factors, including but not limited to the mix of assets in the account, the account objectives and the total amount of assets managed for the client and the client's related entities and related individuals. The fees that we charge for investment advisory services are specified in our Investment Management Agreement between LK&A and the client.

### **Other Fees and Expenses**

Clients will pay other expenses in addition to the fees paid to LK&A. For example, clients may pay costs such as brokerage commissions, transaction fees, custodial fees, transfer taxes, wire transfer fees, and other fees and taxes charged to brokerage accounts, custodial accounts and securities transactions which are unrelated to the fees collected by LK&A. The choice of who acts as a client's custodian is entirely the client's decision. (Item 12 provides more information on our brokerage practices.)

### **Additional Compensation**

Neither the firm nor its employees accept compensation from any person for the purchase or sale of securities.

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

We do not charge performance-based fees.

## **Item 7: Types of Clients**

LK&A primarily provides investment management services to high net-worth individuals. We also have as clients other individuals, trusts of various types, foundations and limited liability companies.

We usually do not accept new client relationships under \$5 million. However, LK&A has no formal minimum account size.

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

LK&A primarily selects larger-capitalization stocks with histories of strong long-term earnings growth for our clients' equity portfolios. Our equity investment strategy focuses on long term purchases with securities usually being held at least one year. Client equity portfolios are relatively concentrated with typically less than 40 individual stocks per client portfolio. For clients with multiple accounts with us, all the accounts are typically managed as a single portfolio. LK&A buys for client portfolios U.S. listed common and preferred stocks, stocks listed on foreign exchanges and American Depository Receipts (ADRs). We do not typically invest in mutual funds, exchange traded funds, options or derivatives.

LK&A selects portfolio securities based on fundamental analysis, firm generated research and stock screens. We also use brokerage firm research, investment news services, company reports and presentations. Also critical to our investment decision is our own macro-economic outlook for the U.S. and world economies.

For the fixed income portion of client portfolios, we primarily build bond ladders consisting of municipal bonds, corporate bonds or U.S. Treasuries. A bond ladder is a portfolio of bonds or other fixed income securities with periodic maturities of the securities over a period of time. The bonds in the portfolio have an average maturity that we adjust based on client objectives and our view of current economic conditions and our interest rate outlook.

Investing in equity securities carries a risk of loss. Clients should be prepared to bear the risk of a loss in the value of their investments. LK&A's investment strategy has three principal types of risk: market risk, company risk and concentration risk. Market risk arises because equities as a whole may decline in value as a result of factors such as economic growth, stock market conditions, interest rates, natural disasters, political events and international events affecting the stock markets in the United States and abroad. However, there is no guaranty that this strategy

will prevent a reduced loss in a client's portfolio. In the case of a general market decline, LK&A's strategy may not prevent a significant decline in the value of a client's portfolio.

Company risk is the risk that the equity securities of a company in which we invest may not perform as we expect or will decline in value. Our view that a security will appreciate in value is based on our consideration of many factors including the company's growth prospects, management, the company's industry, the demand for the company's products and other factors that affect the value of a company's securities. The factors that we believe will cause an appreciation in the price of a security may not come into being in the future, or even if they do, they may not have the effect on the price of a company's securities that we expect.

Concentration risk arises because our portfolios typically contain 40 or less securities and may often have individual positions that are larger relative to the other positions. Portfolio's that contain a greater number of securities may be less likely to be impacted by the occurrence of an adverse event at one or more companies. However, LK&A believes that this risk is justified by the greater likelihood of appreciation of the equity securities selected for our clients' portfolios. For accounts with significantly less than our usual \$5 million account size, this risk may be increased with a more limited number of securities that can be efficiently included in such smaller portfolios.

Investing in fixed income securities also carries a risk of loss. Clients should be prepared to bear the risk of a loss in the value of their investments. Investing in fixed income securities is subject to two principal types of risk: interest rate risk and issuer risk. Interest rate risk is the risk that fixed income securities generally or across classes of fixed income securities will decline in value as a result of rising interest rates. Rising interest rates lower the value of outstanding fixed income securities because the interest rates paid by those securities are now below the prevailing market rates.

Issuer risk occurs because financial problems specific to a particular issuer or industry may affect the financial health of an issuer of fixed income securities or a class of issuers. Both the non-payment on its obligations by the fixed income security issuer and the market's perception that an issuer is more likely to default in the repayment of its debts will cause a decline in the value of the fixed income securities of such issuer.

Our fixed income strategy attempts to minimize both types of risk. By investing primarily in higher grade municipal bonds, corporate bonds and U.S. Treasury securities, LK&A attempts to reduce the chance that events affecting the issuer will impact its ability to meet its debt obligations in a timely fashion.

LK&A attempts to mitigate the effect of changes in interest rates by creating bond ladders for its fixed income clients. Bond ladders are comprised of a group of bonds that mature periodically; for example, a bond ladder may have bonds of approximately equal size maturing yearly over a 10-year period. With such a ladder of fixed income securities, a client has the ability to purchase new fixed income securities on a periodic basis with the funds from maturing securities. These purchases allow the client to take advantage of then current market rates. Also creating a bond ladder makes it less likely that a client with a need for cash will have to sell bonds at a loss to

raise cash because fixed income securities will be maturing at regular intervals to provide cash. However, while this approach makes it less likely clients will have to sell fixed income securities at a loss, it does not protect from a decline in value of the client's portfolio of fixed income securities.

## **Item 9: Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the adviser or the integrity of the adviser's management in this item.

LK&A has no legal or disciplinary events to report.

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

Neither LK&A nor any of its employees are affiliated with any broker-dealers, banks, futures commission merchants, commodity pool operators, commodity trading advisors or any other firms in the financial services industry. LK&A is a member of the Investment Adviser Association and Nicholas Welsh and Michael Stewart are members of the Los Angeles Chapter of the CFA Institute. Mr. Welsh and Mr. Stewart hold the designation of Chartered Financial Analyst ("CFA") awarded by the CFA Institute.

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

### **Code of Ethics**

We have adopted a Code of Ethics that requires all our employees maintain a high standard of business conduct and professionalism, total integrity and our fiduciary duty to our clients.

Our Code of Ethics requires that all our employees (1) report all their personal securities transactions, (2) report violations of the Code of Ethics, (3) receive preapproval from the firm for all personal securities transactions and (4) certify that they have received a copy of our Code of Ethics and agree to comply with its terms.

We also maintain an insider trading policy and a privacy policy providing for the confidentiality of client information.

Our Code of Ethics is available to any client or prospective client of LK&A upon request.



## **Purchase of Securities**

LK&A and its employees refrain from engaging in transactions in securities which are then the subject of active consideration, or pending transactions for, clients' accounts. After all the securities are no longer under active consideration and purchases or sales for client accounts have occurred, firm employees may purchase or sell a security that was the subject of client transactions. By prohibiting firm employees from trading in securities LK&A is actively considering or trading in until after all client transactions are completed, we believe that we avoid any conflicts of interest between clients and our employees with respect to the purchase and sale of securities. All personal securities transactions by our employees require the preapproval of our chief executive officer or chief compliance officer.

## **Item 12: Brokerage Practices**

### **Execution and Broker Selection**

We seek to obtain the best trade execution for our client accounts. However, we believe that other considerations are important in placing an order than solely the net lowest commission rates possible. In selecting a broker-dealer to execute portfolio transactions where no client specification has been made, our objective is to obtain the best execution, while at the same time receiving quality client service in trade settlements and obtaining access to broker/dealer research. Best net price, giving effect to brokerage commission, if any, and other transaction costs, is normally not the most important factor in our decision to use a particular broker. The selection of a broker-dealer takes into account the quality of brokerage services, including such factors as execution capability, financial stability, and clearance and settlement capability.

The reasonableness of brokerage commissions is evaluated on an on-going basis in light of the general level of institutional commissions for firms with trading activity of our size. We generally negotiate commissions with all the broker-dealers we use (currently 5¢ per share for orders of 100,000 shares or less, 4¢ per share for orders over 100,000 shares or 3¢ per share for orders over 250,000 shares). However, a client's requirement that transactions be executed at a specified commission per share, the designation by the client of a specific broker-dealer, broker minimum commissions for small transactions and other special situations may result in transactions being executed at brokerage commission rates other than our negotiated rates.

Fixed-income securities are generally purchased on a net basis with no brokerage commission paid by our client. Occasionally, a commission may be paid on transactions in fixed-income securities, resulting in total transaction costs similar to the net price that would have been paid if the securities had been purchased from a primary market maker. Fixed-income securities, as well as equity securities, may also be purchased from underwriters at prices which include underwriting fees.

## Research

We do not have any commitments or understandings to trade with specific brokers or to generate a specific level of brokerage commission with particular brokers in order to receive research. These commitments or understandings are generally known as soft dollar arrangements. Certain brokers through whom we execute trades provide to us unsolicited proprietary research (research generated or developed by the broker). This research is used for all client accounts, even though certain clients may not have paid commissions to the broker who provided the research. Consequently, research may be used in connection with accounts other than those which pay commissions to the broker-dealer providing the research.

Research may include: research reports on companies, industries, and securities; economic and financial data, including reports on macro-economic trends and monetary and fiscal policy.

Generally, LK&A tries to direct sufficient commissions to brokers providing it research to ensure the continued receipt of research it believes is useful. This use of brokerage creates a potential conflict of interest because LK&A has an incentive to use certain brokers and possibly not obtain a lower commission that might otherwise be available to the client to obtain research. An adviser that uses client brokerage commissions to obtain research receives a benefit because it does not have to pay for the research. We also obtain a significant quantity of research from broker-dealers designated by clients.

## Directed Brokerage and Aggregated Trades

In some cases, a client will specify the broker-dealer through which the client's security transactions are to be executed. In other cases, by the client selecting a broker-dealer as the client's custodian, we will be required to use that broker-dealer for the client's securities transactions. This situation has the same result as a client designating that we use a particular broker-dealer. We do not generally use designated broker-dealers for transactions other than transactions for the client that designated such broker-dealer. LK&A typically discusses the pros and cons of the designation of a particular broker-dealer for use with a client's account.

If a client directs the use of a particular broker-dealer, the client will generally also specify that the designated firm should be used for all transactions, even though we might be able to obtain a more favorable execution from another broker-dealer in particular transactions. Also, clients who direct the use of a designated broker may pay significantly higher commissions because we may not be able to aggregate orders to reduce transaction costs or meet a broker-dealer's minimum commission level, and may also receive less favorable prices and execution. In deciding whether to designate a broker-dealer, a client should consider any services which the designated broker-dealer provides to the client and should consider that execution and security availability may not be as favorable as would be the case if there was no designation.

Our transactions in a specific security may not be accomplished for all clients at the same time and

the same price. This may occur either as a result of the way accounts are reviewed, the need for client approval or as a result of the way trades are ordered. LK&A varies the order of execution of trades for its accounts to avoid any systematic disadvantage to clients from the order of execution of trades.

In order to provide lower commission rates and improve execution, LK&A engages in block trades, in grouping of orders with a single broker, whenever practical. All accounts involved in such transactions receive the average executed price.

### **Item 13: Review of Accounts**

All accounts are continuously reviewed by one or more of our senior portfolio managers. For most accounts, a more formal review is performed on a quarterly basis. Currently, the senior portfolio managers are Nicholas J. Welsh and Michael C. Stewart.

A full written review and report is made for accounts on a quarterly basis. Such reports contain, unless otherwise specifically requested by the client, as of the end of each quarter, (1) a prose discussion of the performance and asset allocation of the account over various measurement periods; (2) the value of the account with a list of each of the individual assets including the quantity held in the account, the cost basis and the current valuation; (3) a report of all securities purchased and sold during the quarter and a realized gain and loss statement; and (4) a report describing our current investment and economic outlook

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

LK&A does not receive an economic benefit other than from our clients. We do not solicit or compensate any person for client referrals.

### **Item 15: Custody**

LK&A does not provide custody services to its clients. Client assets are held with banks, trust companies or broker-dealers that are “qualified custodians.” Clients receive statements directly from their qualified custodian. LK&A reconciles statements from clients’ custodians with its statements on a monthly basis. We urge clients to carefully review those statements and compare the custodial records to the records that we provide.

### **Item 16: Investment Discretion**

For our discretionary accounts, LK&A is generally authorized to determine and direct execution

of portfolio transactions within the client's specified investment objectives, without consultation on a transaction-by-transaction basis with the client. Some of our clients limit discretionary authority in terms of type or amount of securities to be bought or sold or the amount of commission to be paid. The specific investment objectives for each account and any related restrictions are developed at the commencement of the advisory relationship by consultation between the client and us and may be changed from time to time by contacting LK&A. Discretionary accounts are all subject to written advisory agreements.

Historically, some clients have retained LK&A on a non-discretionary basis, requiring that portfolio transactions be discussed in advance and executed at the client's direction.

## **Item 17: Voting Client Securities**

### **Proxy Voting**

Clients have a choice to either vote the proxies themselves or have LK&A vote their proxies subject to the limitations set forth below. When we recognize a conflict of interest that impedes our ability to vote a proxy, we will deliver the proxy to the client to be voted. We do not utilize third party proxy voting services. If a client wishes to direct us to vote in a certain manner for a particular proxy, the client should provide such direction in writing to LK&A at least two weeks prior to the shareholder meeting date. If a client wants to determine how we voted with respect to particular securities in the client's account or our proxy voting policies and procedures, the client should contact us in writing.

LK&A invests on behalf of our clients only for the purpose of maximizing our clients' long-term economic returns, and not for the purpose of influencing the management or affecting the control of companies. Moreover, we believe that our role is not to use companies to achieve political and social goals but to maximize shareholder value. Therefore, our primary responsibility in voting on matters presented to the shareholders of companies contained in our clients' portfolios is to protect and enhance the economic interests of our clients, and therefore the economic interests of the companies in which our clients own shares.

### **Other Securities Related Communications**

We do not advise clients with respect to legal proceedings involving securities purchased by or held in client accounts. LK&A does not possess the necessary expertise with respect to such legal matters. Clients involved in such litigation should obtain the relevant information from their custodian regarding dates of purchase and the time particular securities were held by the client. Claim filing services may be engaged by clients wishing assistance in pursuing class action litigation.

## **Item 18. Financial Information**

In certain circumstances, registered investment advisers are required to provide you with financial information or disclosures about their financial condition for this Item. LK&A has no financial commitments that impairs its ability to meet contractual and fiduciary commitments to clients and has never been the subject of a bankruptcy proceeding.