

# FORM ADV PART 2A DISCLOSURE BROCHURE



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This brochure provides information about the qualifications and business practices of Madrone Investment Advisory, LLC. Being registered as an investment adviser does not imply a certain level of skill or training. If you have any questions about the contents of this brochure, please contact us at 415-785-4585. 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 Madrone Investment Advisory, LLC (CRD #149549) is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

**MARCH 21,  
2024**

## **Item 2: Material Changes**

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### **Annual Update**

The Material Changes section of this brochure will be updated annually or when material changes occur since the previous release of the Firm Brochure.

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### **Material Changes since the Last Update**

This update is in accordance with the required annual update for Investment Advisors. Since the last update on July 12, 2023, the following changes have occurred:

- Item 4 client assets under management have been updated.
  - Item 5 assets under management fee schedule updated.
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### **Full Brochure Available**

This Firm Brochure being delivered is the complete brochure for the Firm.

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## **Item 4: Advisory Business**

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### **Firm Description**

Madrone Investment Advisory, LLC (“Madrone”) was founded as a sole proprietorship by Michael Zaidlin in 2009 and became an LLC in 2011. Mr. Zaidlin is 100% owner and Chief Compliance Officer.

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### **Types of Advisory Services**

#### **ASSET MANAGEMENT**

Madrone offers non-discretionary direct asset management services to advisory clients. What does non-discretionary mean? It means that Madrone will recommend specific securities to be bought or sold, as well as the amount, but will obtain the clients approval to purchase or sell such securities prior to executing any transactions in the client’s account. This approval is initially granted by the client when both Madrone and the client agree on, and sign, an initial proposed investment portfolio. After that, any further transactions must be further approved by the client as to the type and the dollar amount of security purchases. One of the primary reasons Madrone provides non-discretionary asset management is because it helps ensure that the client is not only educated and informed about their investments, but because it also provides an opportunity for more and better communication between the client and Madrone.

In addition to investment recommendations, Madrone will provide clients with ongoing portfolio management services consistent with that client’s investment objectives, investment time horizons, and risk tolerance. Investment strategies and selection, asset allocation, portfolio monitoring and the overall investment program will be based on the those factors. All investment portfolios managed by Madrone are individually tailored for each client, taking into account, where feasible and where the client is forthcoming about such information, the Client’s existing positions in outside accounts that are neither managed nor advised upon by Madrone.

Madrone primarily structures broadly diversified investment portfolios with passive exchange traded mutual funds and mutual funds which typically, though not always, have very low annual expense ratios, are market-cap weighted, tax-efficient, and/or evidence-based which are designed to provide investors with market returns. Please see Item 8 for a more detailed description of our investment philosophy and associated risks.

Madrone does not provide clients with a formal comprehensive financial plan, which typically includes elements such as a net worth statement, cash flow analysis, a risk management plan, and other elements. However, Madrone can provide clients with limited information about certain aspects of financial planning that clients may find to be sufficient for their needs. Clients desiring a more formal comprehensive financial planning may choose to seek such services elsewhere.

#### **ERISA PLAN SERVICES**

Madrone provides services to qualified retirement plans including 401(k) plans, 403(b) plans, pension and profit-sharing plans, cash balance plans, and deferred compensation plans.

**ERISA 3(38) Investment Manager.** Madrone can act as an ERISA 3(38) Investment Manager in which it has discretionary management and control of a given retirement plan's assets. Madrone would then become solely responsible and liable for the selection, monitoring and replacement of the plan's investment options.

1. Fiduciary Services are:

- Madrone has discretionary authority and will make the final decision regarding the initial selection, retention, removal and addition of investment options in accordance with the Plan's investment policies and objectives.
- Assist the client with the selection of a broad range of investment options consistent with ERISA Section 404(c) and the regulations thereunder.
- Assist the client in the development of an investment policy statement ("IPS"). The IPS establishes the investment policies and objectives for the Plan.
- Provide discretionary investment advice to the Plan Sponsor with respect to the selection of a qualified default investment alternative for participants who are automatically enrolled in the Plan or who have otherwise failed to make investment elections. The client retains the sole responsibility to provide all notices to the Plan participants required under ERISA Section 404(c) (5).

2. Non-fiduciary Services are:

- Assist in the education of Plan participants about general investment information and the investment alternatives available to them under the Plan. client understands the Madrone's assistance in education of the Plan participants shall be consistent with and within the scope of the Department of Labor's definition of investment education (Department of Labor Interpretive Bulletin 96-1). As such, the Madrone is not providing fiduciary advice as defined by ERISA to the Plan participants. Madrone will not provide investment advice concerning the prudence of any investment option or combination of investment options for a particular participant or beneficiary under the Plan.
- Assist in the group enrollment meetings designed to increase retirement plan participation among the employees and investment and financial understanding by the employees.

Madrone may provide these services or, alternatively, may arrange for the Plan's other providers to offer these services, as agreed upon between Madrone and client.

3. Madrone has no responsibility to provide services related to the following types of assets ("Excluded Assets"):

- Employer securities;
- Real estate (except for real estate funds or publicly traded REITs);
- Stock brokerage accounts or mutual fund windows;
- Participant loans;
- Non-publicly traded partnership interests;

- Other non-publicly traded securities or property (other than collective trusts and similar vehicles); or
- Other hard-to-value or illiquid securities or property.

Excluded Assets will **not** be included in calculation of Fees paid to the Adviser on the ERISA Agreement. Specific services will be outlined in detail to each plan in the 408(b)2 disclosure.

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### **Client Tailored Services and Client Imposed Restrictions**

The goals and objectives for each client are documented in our client files. Investment strategies are created that reflect the stated goals and objectives. clients may impose restrictions on investing in certain securities or types of securities.

Agreements may not be assigned without written client consent.

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### **Wrap Fee Programs**

Madrone does not sponsor any wrap fee programs.

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### **Client Assets under Management**

Madrone has the following Client assets under management:

Discretionary Amounts:	Non-discretionary Amounts:	Date Calculated:
\$8,347,000	\$192,407,000	December 31, 2023

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

### **Method of Compensation and Fee Schedule**

#### ASSET MANAGEMENT

Madrone offers non-discretionary direct asset management services to advisory clients. Madrone is solely compensated by fees paid directly to Madrone by the client. Rather than bill on a strict percentage of assets under management, clients pay a flat annual dollar fee, which is then typically billed on a pro-rated quarterly basis. As shown in the fee schedule below, the annual fee is based on a general range of assets under management. A particular client's annual fee will initially be set based on where within a particular asset range that client's assets are. For example, a client with an initial AUM figure of \$1.1M will have an annual fee that will be set toward the lower end of the \$5,000 - \$8,000 range, while a client with an initial AUM of \$1.8M will have an annual fee toward or at the higher end of the \$5,000- \$8,000 range.

As client assets increase\decrease by a significant amount within a particular range, Madrone will notify the client that the annual fee will need to be adjusted to a quoted new fee, either upwards or downwards, commencing with the following quarter. The client may either accept the new fee with written acknowledgement or choose to terminate the advisory relationship. Fees may be negotiable. As a general rule, a change in the annual fee will be proposed to the client only when the value of the client's assets under management within a particular asset range change significantly within a particular range or if\when the overall fee schedule changes over time. While Madrone does not bill on a straight "percentage of assets" basis, Madrone's fee structure is intended to ensure that all clients with under \$2M in assets under management are billed at a rate that, if measured on a percentage basis,



would not exceed 0.50% of assets under management, subject to a minimum annual fee of \$5,000, and if over \$2M, would not exceed 0.40% of assets under management.

**See accompanying email with new fee schedule:**

Assets Under Management	Annual Fee	Quarterly Fee
Up to \$1,000,000	\$5,000	\$1,250
\$1,000,001 to \$2,000,000	\$5,000 - \$8,000	\$1,250 - \$2,000
\$2,000,001 to \$3,000,000	\$9,000 - \$11,000	\$2,250 - \$2,750
\$3,000,001 to \$4,000,000	\$12,000 - \$15,000	\$3,000 - \$3,750
\$4,000,001 to \$5,000,000	\$16,000 - \$18,000	\$4,000 - \$4,500
\$5,000,001 to \$6,000,000	\$19,000 - \$21,000	\$4,750 - \$5,250
\$6,000,001 to \$10,000,000	\$22,000 - \$30,000	\$5,500 - \$7,500
Over \$10,000,000	Minimum Fee \$30,000	Minimum \$7,500

The annual fee is billed on a quarterly basis in advance and is generally billed in middle of that particular quarter. Madrone considers cash to be an asset class, and as such it is included in fee calculations. Also, to be noted, at times fees will exceed the money market yield. Other than the annual fee that is stated in the client's advisory agreement, no other payment or fee from a client will be assessed by Madrone.

Generally, Clients are billed directly via a quarterly invoice that is emailed to the Client. Payment can be made by check, or electronically, typically by Zelle or ACH. The client may, solely at their discretion, choose to have advisory fees directly paid from their appropriate investment account. Lower fees for comparable services may be available from other sources. Clients may terminate their account within five (5) business days of signing the Investment Advisory Agreement with no obligation and without penalty. After five (5) business days, the client may cancel at any time by providing written notice to Madrone. Such cancellation shall be effective immediately upon receipt of such notice by Madrone. Madrone may terminate advisory services at any time by providing thirty (30) days written notice to the client. Any fees earned by Madrone, but not paid to Madrone at the time of termination, will be due and payable to Madrone. Any fees paid to Madrone which have not been earned by Madrone will be refunded to the client within ten days of termination.

All fees will be prorated based on the number of days for which services were being provided during the billable period.

**ERISA PLAN SERVICES**

Madrone provides fiduciary investment management services to qualified retirement plans including 401(k) plans, 403(b) plans, pension and profit-sharing plans, cash balance plans, and deferred compensation plans based on a flat annual dollar fee. For ERISA accounts of less than \$2M in value, the annual fee is \$6,000. For ERISA accounts between \$2M and \$4M, the annual fee is \$10,000. For ERISA accounts between \$4M and \$7M, the annual fee is \$15,000. The annual fee may be negotiable. Fees are billed quarterly in advance, typically in the middle of the quarter for which services are being billed. If the services to be provided start any time other than the first day of a quarter, the fee will be prorated based on the number of days remaining in the quarter. If the Agreement is terminated prior to the end of

a billing cycle for which fees have already been paid, client will be due a prorated refund of fees for those days for which services were not provided during that billing cycle.

The fee schedule, which includes compensation of Madrone for services, is described in detail in Schedule A of the ERISA Plan Agreement. The Plan is obligated to pay the fees; however, the Plan Sponsor may elect to pay the fees instead. Client will be billed directly via email. Madrone does not reasonably expect to receive any additional compensation, directly or indirectly, for its services under this Agreement. If additional compensation is received, Madrone will disclose this compensation, the services rendered, and the payer of compensation. Madrone will offset the compensation against the fees agreed upon under the Agreement.

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**Client Payment of Fees**

Fees for asset management services are:

- Deducted from a designated Client account. The Client must consent in advance to direct debiting of their investment account.
- Check – to be remitted by Client to Madrone
- Electronic Payment via Zelle

Fees for ERISA 3(21) and/or 3(38) services are billed in advance.

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**Additional Client Fees Charged**

Custodians may charge transaction fees and other related costs on the purchases or sales of mutual funds, equities, bonds, options and exchange-traded funds. Mutual funds, money market funds and exchange-traded funds also charge internal management fees, which are disclosed in the fund's prospectus. Madrone does not receive any portion of these fees. Any such fees are in addition to the annual management fee paid by the client to Madrone. For more details on these brokerage practices, see Item 12 of this brochure.

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**Prepayment of Client Fees**

Investment management fees are billed quarterly in advance.

Fees for ERISA 3(38) services are billed in advance.

If the client cancels after five (5) business days, any unearned fees will be refunded to the client, or any unpaid earned fees will be due to Madrone.

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**External Compensation for the Sale of Securities to Clients**

Madrone does not receive any external compensation for the sale of securities to clients, nor do any of the investment advisor representatives of Madrone.

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

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**Sharing of Capital Gains**

Fees are not based on a share of the capital gains or capital appreciation of managed securities.

Madrone does not use a performance-based fee structure because a performance-based compensation structure may create an incentive for Madrone to recommend an investment

that may carry a higher degree of risk to the client. Further, such a structure would be in conflict with Madrone's investment philosophy regarding the efficacy of building portfolios primarily consisting of broadly diversified, low-cost index funds.

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

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### **Description**

Madrone provides investment advice to individuals, pension and profit sharing plans, trusts, estates, and charitable organizations. Client relationships can vary in both scope as well as length of service.

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### **Account Minimums**

Madrone does not require a minimum balance to open an account.

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

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### **Methods of Analysis**

Madrone's investment recommendations are primarily based upon numerous published studies that demonstrate the efficacy of long-term, low-cost, tax-efficient investing within a broadly diversified portfolio of primarily passive index-based and/or evidence-based funds. Such studies include, but are not limited to, the research and writings of academic and investment professionals, including Nobel prize-winning economists, who have concluded that broadly diversified, index based, low-cost investing provides investors the best opportunity to obtain market returns while minimizing the risks of doing so. Madrone also utilizes research from other sources both printed and on-line, including financial journals as well as internet and other sources deemed reliable.

When selecting funds, Madrone generally seeks funds that have a fairly long (5+ years) track record, are low-cost, and which are intended to track an underlying index or asset class in a tax-efficient manner, and/or are evidence-based funds. That being said, there are literally thousands of index funds. For example, many index funds are "cap-weighted", while other index funds are weighted based on other criteria, such as book value, cash flow, fundamental value, or a combination of these factors. Some index funds are "equal-weighted" whereby each holding is given an equal weight regardless of its market cap. Some index funds hold all, or nearly all, securities within that underlying index, while others hold a "representative" number of securities. In general, we favor cap-weighted index funds.

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### **Investment Strategy**

The investment strategy, with specific fund recommendations, is based not only upon the financial objectives stated by that particular client during the several lengthy conversations and intake interviews that Madrone has with every client prior to designing a custom investment portfolio for that client, but is also based on the client's perceived ability to tolerate investment risk, both emotionally as well as financially. The client's investment history will also be discussed. Using this information, Madrone then prepares a "proposed investment portfolio" for each client, then meets with that client to review the proposed portfolio and discuss each fund, as well as the purpose each fund is designed to serve within the proposed portfolio. As all investment advisory contracts for individuals are "non-

discretionary”, the client’s approval of the proposed investment portfolio must be obtained in writing before Madrone can proceed to place any trades on the client’s behalf.

Generally, the proposed investment portfolio will list each proposed fund, along with a percentage of the initial portfolio value for each fund. These percentages apply to the initial portfolio security purchases only. Over time, the actual percentages in the client’s accounts will change due to different rates of growth or decline for each particular fund. In addition, clients may want or need to liquidate securities in order to raise cash for living expenses of or for other needs. In such cases, Madrone may recommend that, from a tax standpoint, it would be preferable to liquidate certain securities, but not others. Further, clients may, over time, wish to deposit cash into the accounts without wishing to allocate some or all of that cash to the securities listed in the initial investment portfolio. For these and other reasons, the percentages listed on the initial\proposed investment portfolio will change over time. Also, the potential negative tax implications of rebalancing, or changes in the Client’s overall financial situation that make rebalancing undesirable, are other factors that may make rebalancing both undesirable as well as counterproductive. As such, Madrone does not automatically rebalance portfolios.

For these and other reasons, the percentages listed on the initial\proposed investment portfolio will change over time. However, during annual (or more frequent) client meetings, Madrone will discuss the current overall asset-class allocations with the client and make recommendations as warranted.

In nearly all cases, new clients will bring an existing portfolio of investment securities to Madrone. When designing a proposed investment portfolio, Madrone will consider any tax implications that might arise from selling such securities, and will make recommendations to clients accordingly, taking into account fees associated with retaining a particular fund, the tax implications from liquidating a position, the possibility of gifting appreciated shares to charitable institutions or to beneficiaries in lower tax bracket, selling, the possibility of gifting appreciated shares at a future date, the likelihood of achieving a step-up in tax basis for very elderly clients, as well as other factors. Madrone does not recommend individual equities. Madrone will invariably recommend to Clients bringing existing portfolios with existing individual equity positions or higher-cost mutual or ETF funds to liquidate such positions unless there are significant tax consequences that would arise from liquidating such positions, in which case Madrone will so advise Clients of such tax consequences.

Of course, client objectives and circumstances may change over time. Where possible, Madrone seeks to actively communicate and engage with clients so as to be kept abreast of any changes to the client’s financial circumstances. This may be both proactive as well as reactive.

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### **Security Specific Material Risks**

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks and should discuss these risks with Madrone:

- *Market Risk:* The prices of securities in which clients invest may decline in response to certain events taking place around the world, including those directly involving the companies whose securities are owned by a fund; conditions affecting the general

economy; overall market changes; local, regional or global political, social or economic instability; and currency, interest rate and commodity price fluctuations. Investors should have a long-term perspective and be able to tolerate potentially sharp declines in market value.

- *Interest-rate Risk:* Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- *Inflation Risk:* When any type of inflation is present, a dollar today will buy more than a dollar next year, because purchasing power is eroding at the rate of inflation.
- *Currency Risk:* Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- *Reinvestment Risk:* This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- *Liquidity Risk:* Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- *Management Risk:* The advisor's investment approach may fail to produce the intended results. If the advisor's assumptions regarding the performance of a specific asset class or fund are not realized in the expected time frame, the overall performance of the client's portfolio may suffer.
- *Equity Risk:* Equity securities tend to be more volatile than other investment choices. The value of an individual mutual fund or ETF can be more volatile than the market as a whole. This volatility affects the value of the client's overall portfolio. Small- and mid-cap companies are subject to additional risks. Smaller companies may experience greater volatility, higher failure rates, more limited markets, product lines, financial resources, and less management experience than larger companies. Smaller companies may also have a lower trading volume, which may disproportionately affect their market price, tending to make them fall more in response to selling pressure than is the case with larger companies.
- *Fixed Income Risk:* The issuer of a fixed income security may not be able to make interest and principal payments when due. Generally, the lower the credit rating of a security, the greater the risk that the issuer will default on its obligation. If a rating agency gives a debt security a lower rating, the value of the debt security will decline because investors will demand a higher rate of return. As nominal interest rates rise, the value of fixed income securities held by a fund is likely to decrease. A nominal interest rate is the sum of a real interest rate and an expected inflation rate.
- *Investment Companies Risk:* When a client invests in open end mutual funds or ETFs, the client indirectly bears their proportionate share of any fees and expenses payable

directly by those funds. Therefore, the client will incur higher expenses, which may be duplicative. In addition, the client's overall portfolio may be affected by losses of an underlying fund and the level of risk arising from the investment practices of an underlying fund (such as the use of derivatives). ETFs are also subject to the following risks: (i) an ETF's shares may trade at a market price that is above or below their net asset value or (ii) trading of an ETF's shares may be halted if the listing exchange's officials deem such action appropriate, the shares are de-listed from the exchange, or the activation of market-wide "circuit breakers" (which are tied to large decreases in stock prices) halts stock trading generally. Adviser has no control over the risks taken by the underlying funds in which client invests.

- *Foreign Securities Risk:* Funds in which clients invest may invest in foreign securities. Foreign securities are subject to additional risks not typically associated with investments in domestic securities. These risks may include, among others, currency risk, country risks (political, diplomatic, regional conflicts, terrorism, war, social and economic instability, currency devaluations and policies that have the effect of limiting or restricting foreign investment or the movement of assets), different trading practices, less government supervision, less publicly available information, limited trading markets and greater volatility. To the extent that underlying funds invest in issuers located in emerging markets, the risk may be heightened by political changes, changes in taxation, or currency controls that could adversely affect the values of these investments. Emerging markets have been more volatile than the markets of developed countries with more mature economies.
- *Long-term purchases:* Long-term investments are those vehicles purchased with the intension of being held for more than one year. Typically, the expectation of the investment is to increase in value so that it can eventually be sold for a profit. In addition, there may be an expectation for the investment to provide income. One of the biggest risks associated with long-term investments is volatility, the fluctuations in the financial markets that can cause investments to lose value.

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## **Item 9: Disciplinary Information**

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### **Criminal or Civil Actions**

Madrone and its management have not been involved in any criminal or civil action.

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### **Administrative Enforcement Proceedings**

Madrone and its management have not been involved in administrative enforcement proceedings.

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### **Self-Regulatory Organization Enforcement Proceedings**

Madrone and its management have not been involved in legal or disciplinary events that are material to a client's or prospective client's evaluation of Madrone or the integrity of its management.

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

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### **Broker-Dealer or Representative Registration**

Madrone is not registered as a broker-dealer and no affiliated representatives of Madrone are registered representatives of a broker-dealer.

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### **Futures or Commodity Registration**

Neither Madrone nor its employees are registered or has an application pending to register as a futures commission merchant, commodity pool operator, or a commodity trading advisor.

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### **Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

Managing Member Michael Zaidlin is an attorney in the state of California but while maintaining “active” status with the California Bar, has not actively practiced law for many years. Mr. Zaidlin, in his capacity as an Investment Advisor Representative and Managing Member of Madrone, does not provide any legal services whatsoever when serving a client of Madrone, nor is legal advice being provided in that capacity, nor is an attorney-client relationship formed between Mr. Zaidlin or the law offices of Michael H. Zaidlin, and a client of Madrone. Clients should seek the counsel of a qualified attorney when necessary.

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### **Recommendations or Selections of Other Investment Advisors and Conflicts of Interest**

Madrone does not select or recommend other investment advisors.

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

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### **Code of Ethics Description**

The employees of Madrone have committed to a Code of Ethics (“Code”). The purpose of our Code is to set forth standards of conduct expected of Madrone employees and addresses conflicts that may arise. The Code defines acceptable behavior for employees of Madrone. The Code reflects Madrone and its supervised persons’ responsibility to act in the best interest of their client.

One area the Code addresses is when employees buy or sell securities for their personal accounts and how to mitigate any conflict of interest with our clients. We do not allow any employees to use non-public material information for their personal profit or to use internal research for their personal benefit in conflict with the benefit to our clients.

Madrone’s policy prohibits any person from acting upon or otherwise misusing non-public or inside information. No advisory representative or other employee, officer or director of Madrone may recommend any transaction in a security or its derivative to advisory clients or engage in personal securities transactions for a security or its derivatives if the advisory representative possesses material, non-public information regarding the security.

Madrone’s Code is based on the guiding principle that the interests of the client are our top priority. Madrone’s officers, directors, advisors, and other employees have a fiduciary duty to our clients and must diligently perform that duty to maintain the complete trust and confidence of our clients. When a conflict arises, it is our obligation to put the client’s interests over the interests of either employees or the company.

In addition, there are numerous situations where conflicts of interest routinely arise. In all cases, that conflict must be resolved entirely, and solely, in the client's best interest. To take just a few examples, some clients may request a recommendation as to whether a mortgage should be paid off, or may request an opinion regarding a contemplated real estate purchase. It may be that such actions may necessitate the sale of securities being managed by Madrone. Or a client may seek advice on whether an IRA should be utilized now in order to benefit from delaying Social Security. Both actions may lead to lower annual fees paid to Madrone. In these scenarios and all others, any advice or opinions rendered by Madrone must be solely done with only the client's best interests in mind, regardless of the financial impact to Madrone or to any of its employees.

The Code applies to "access" persons. "Access" persons are employees who have access to non-public information regarding any clients' purchase or sale of securities, or non-public information regarding the portfolio holdings of any reportable fund, who are involved in making securities recommendations to clients, or who have access to such recommendations that are non-public.

Madrone will provide a copy of the Code of Ethics to any client or prospective client upon request.

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**Investment Recommendations Involving a Material Financial Interest and Conflict of Interest**

Madrone and its employees do not recommend to clients securities in which we have a material financial interest.

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**Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

Madrone and its employees may buy or sell securities that are also held by clients. In order to mitigate conflicts of interest such as front running, employees are required to disclose all reportable securities transactions as well as provide Madrone with copies of their brokerage statements.

The Chief Compliance Officer of Madrone is Michael Zaidlin. He reviews all employee trades each quarter. The personal trading reviews ensure that the personal trading of employees does not affect the markets and that clients of the firm receive preferential treatment over employee transactions.

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**Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

Madrone does not maintain a firm proprietary trading account and does not have a material financial interest in any securities being recommended and therefore no conflicts of interest exist. However, affiliated persons may buy or sell securities at the same time they buy or sell securities for clients. In order to mitigate conflicts of interest such as front running, affiliated persons are required to disclose all reportable securities transactions as well as provide Madrone with copies of their brokerage statements.

The Chief Compliance Officer of Madrone is Michael Zaidlin. He reviews all trades of the affiliated persons each quarter. The personal trading reviews ensure that the personal



trading of affiliated persons does not affect the markets and that clients of the firm receive preferential treatment over associated persons' transactions.

## **Item 12: Brokerage Practices**

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### **Factors Used to Select Broker-Dealers for Client Transactions**

Madrone recommends, but does not formally require, that prospective clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc.<sup>1</sup> ("Schwab"), a FINRA<sup>2</sup> registered broker-dealer and SIPC<sup>3</sup> member, to maintain custody of clients' assets and to effect trades for their accounts. Madrone is independently owned and operated and not affiliated with Schwab. Madrone has evaluated Schwab and believes that it will provide our clients with a blend of execution services, commission costs and professionalism that will assist our firm in meeting our fiduciary obligations to clients. In particular, over the many years in which Madrone has utilized the Schwab Advisor Platform, Madrone has had frequent contact with not only the Schwab advisor team, but with numerous specialists within Schwab's many departments, and has found that Schwab has provided both Madrone our clients with an exceptional level of knowledge and diligence.

Schwab provides Madrone with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services are not contingent upon our firm committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For our client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Charles Schwab & Co. also makes available to Madrone other products and services that benefit Madrone but may not directly benefit our clients' accounts. Many of these products and services may be used to service all or some substantial number of our client accounts, including accounts not maintained at Schwab.

Schwab's products and services that assist Madrone in managing and administering our clients' accounts include software and other technology that:

- provide access to client account data (such as trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide research, pricing and other market data;

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<sup>1</sup> For information regarding Schwab, please refer to their website: <https://www.schwab.com/>.

<sup>2</sup> FINRA is the largest independent regulator for all securities firms doing business in the United States. For more information, please refer to FINRA's website: <http://www.finra.org/>.

<sup>3</sup> For information regarding SIPC, please refer to their website: <http://www.sipc.org/>.

- facilitate payment of our fees from clients' accounts; and
- assist with back-office functions, recordkeeping and client reporting.

Charles Schwab & Co. also offers other services intended to help us manage and further develop our business enterprise. These services may include:

- compliance, legal and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers.

Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to Madrone. Charles Schwab & Co. may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to our firm. Charles Schwab & Co. may also provide other benefits such as educational events or occasional business entertainment of our personnel. In evaluating whether to recommend or require that clients custody their assets at Schwab, we may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors we consider and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

- *Research and Other Soft Dollar Benefits*

The Securities and Exchange Commission defines soft dollar practices as arrangement under which products or services other than execution services are obtained by Madrone from or through a broker-dealer in exchange for directing client transactions to the broker-dealer. Although Madrone has no formal soft dollar arrangements, Madrone may receive products, research and/or other services from custodians or broker-dealers connected to client transactions or "soft dollar benefits". As permitted by Section 28(e) of the Securities Exchange Act of 1934, Madrone receives economic benefits as a result of commissions generated from securities transactions by the custodian or broker-dealer from the accounts of Madrone. Madrone cannot ensure that a particular client will benefit from soft dollars or the client's transactions paid for the soft dollar benefits. Madrone does not seek to proportionately allocate benefits to client accounts to any soft dollar benefits generated by the accounts.

A conflict of interest exists when Madrone receives soft dollars which could result in higher commissions charged to clients. This conflict is mitigated by the fact that Madrone has a fiduciary responsibility to act in the best interest of its clients and the services received are beneficial to all clients.

- *Brokerage for Client Referrals*

Madrone does not receive client referrals from any custodian or third party in exchange for using that broker-dealer or third party.

- *Directed Brokerage*

Clients who direct brokerage outside our recommendation may be unable to achieve the most favorable execution of client transactions as client directed brokerage may cost clients more money. For example, in a directed brokerage account, you may pay

higher brokerage commissions because we may not be able to aggregate orders to reduce transaction costs, or you may receive less favorable prices.

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**Aggregating Securities Transactions for Client Accounts**

Madrone is not authorized to aggregate purchases and sales and other transactions. If aggregation is not allowed and individual transactions occur (e.g., withdrawal or liquidation requests, odd-late trades, etc.) an account may potentially be assessed higher costs or less favorable prices than those where aggregation has occurred.

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**Item 13: Review of Accounts**

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**Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved**

Account reviews are performed at least quarterly by the Chief Compliance Officer of Madrone, Michael Zaidlin. Account reviews are performed more frequently when market conditions dictate. Reviews of client accounts include, but are not limited to, a review of client documented risk tolerance, adherence to account objectives, investment time horizon, and suitability criteria, reviewing target allocations of each asset class to identify if there is an opportunity for rebalancing, and reviewing accounts for tax loss harvesting opportunities.

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**Review of Client Accounts on Non-Periodic Basis**

Other conditions that may trigger a review of clients' accounts are changes in the tax laws, new investment information, and changes in a client's own financial situation, as well as other factors such as an increased or decreased risk tolerance from an emotional standpoint, particularly in response to U.S. and world events.

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**Content of Client Provided Reports and Frequency**

Clients receive written account statements, either viewable electronically or by hard copy as determined by the client, no less than quarterly for managed accounts. These account statements are issued by the client's account custodian. Clients also receive confirmations of each transaction from the account custodian, either electronically or by hard copy, as specified by the client.

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

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**Economic benefits provided to the Advisory Firm from External Sources and Conflicts of Interest**

Madrone receives an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisors whose clients maintain their accounts at Schwab. In addition, Schwab has also agreed to pay for certain products and services for which we would otherwise have to pay once the value of our clients' assets in accounts at Schwab reaches a certain size. You do not pay more for assets maintained at Schwab as a result of these arrangements. However, we benefit from the arrangement because the cost of these services would otherwise be borne directly by us. You should consider these conflicts of interest when selecting a custodian. The products and services provided by Schwab, how they benefit us, and the related conflicts of interest are described above (see Item 12 – Brokerage Practices).

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**Advisory Firm Payments for Client Referrals**

Madrone does not compensate any person or party for client referrals. Nor does Madrone refer clients to outside third parties (i.e., tax preparers, estate planners, etc.) in exchange for referrals from such parties.

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**Item 15: Custody**

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**Account Statements**

All assets are held at qualified custodians, which means the custodians provide account statements directly to clients at their address of record, or electronically, at least quarterly. clients are urged to carefully compare the account statements received directly from their custodians to any documentation or reports prepared by Madrone.

Madrone is deemed to have limited custody solely because advisory fees are directly deducted from Client's accounts by the custodian on behalf of Madrone.

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**Item 16: Investment Discretion**

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**Discretionary Authority for Trading**

Madrone accepts non-discretionary authority to manage securities accounts on behalf of clients. Madrone will obtain prior client approval before executing each transaction.

With ERISA 3(38) services, Madrone has discretionary authority and will make the final decision regarding the initial selection, retention, removal and addition of investment options in accordance with the Plan's investment policies and objectives.

The client approves the custodian to be used and the commission rates paid to the custodian. Madrone does not receive any portion of the transaction fees or commissions paid by the client to the custodian.

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**Item 17: Voting Client Securities**

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**Proxy Votes**

Madrone does not vote proxies on securities. clients are expected to vote their own proxies. The client will receive their proxies directly from the custodian of their account or from a transfer agent.

When assistance on voting proxies is requested, Madrone may provide recommendations to the client. If a conflict of interest exists, it will be disclosed. If the client requires assistance or has questions, they can reach out to the investment advisor representatives of the firm at the contact information on the cover page of this document.

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**Item 18: Financial Information**

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**Balance Sheet**

A balance sheet is not required to be provided to clients because Madrone does not serve as a custodian for client funds or securities and Madrone does not require prepayment of fees of more than \$1200 per client and six months or more in advance.

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**Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

Madrone has no condition that is reasonably likely to impair our ability to meet contractual commitments to our clients.

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**Bankruptcy Petitions during the Past Ten Years**

Madrone has not filed any bankruptcy petitions in the last ten years.

ITEM 1 COVER PAGE

**SUPERVISED PERSON BROCHURE**  
FORM ADV PART 2B

Michael Zaidlin



MADRONE INVESTMENT ADVISORY, LLC

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San Rafael, CA 94901

Tel: 415-785-4585

[mzmadrone@gmail.com](mailto:mzmadrone@gmail.com)

[www.madronellc.com](http://www.madronellc.com)

This brochure supplement provides information about Michael Zaidlin and supplements the Madrone Investment Advisory, LLC brochure. You should have received a copy of that brochure. Please contact Michael Zaidlin if you did not receive the brochure or if you have any questions about the contents of this supplement.

Additional information about Michael Zaidlin (CRD #5643109) is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**MARCH 21, 2024**

## **Brochure Supplement (Part 2B of Form ADV)**

### **Supervised Person Brochure**

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#### **Principal Executive Officer – Michael Zaidlin**

- Year of birth: 1957
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#### **Item 2 - Educational Background and Business Experience**

##### Educational Background:

- California Maritime Academy; Bachelor of Science – Marine Technology; 1981
- San Francisco State University – Graduate School of Business; attended 1988 – 89; (graduate degree program was not completed)
- University of San Francisco School of Law; Juris Doctor; 2006

##### Business Experience:

- Madrone Investment Advisory, LLC; Managing Member/CCO/Investment Advisor Representative; 08/2009 – Present
  - Law Offices of Michael H. Zaidlin; Attorney; 09/2006 – 12/2021
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#### **Item 3 - Disciplinary Information**

- A. Mr. Zaidlin has never been involved in a criminal or civil action in a domestic, foreign or military court of competent jurisdiction for which he:
1. Was convicted of, or pled guilty or nolo contendere (“no contest”) to (a) any felony; (b) misdemeanor that involved investments or an investment-related business, fraud, false statement or omissions, wrongful taking of property, bribery, perjury, counterfeiting, or extortion; or (c) a conspiracy to commit any of these offenses;
  2. Is the named subject of a pending criminal proceeding that involves an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses;
  3. Was found to have been involved in a violation of an investment-related statute or regulation; or
  4. Was the subject of any order, judgement or decree permanently or temporarily enjoining, or otherwise limiting, him from engaging in any investment related activity, or from violating any investment-related statute, rule, or order.
- B. Mr. Zaidlin has never had an administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority in which he:
1. Was found to have caused an investment-related business to lose its authorization to do business; or the subject of an order by the agency or authority;
  2. Was found to have been involved in a violation of an investment-related statute or regulation or was the subject of an order by the agency or authority (a) denying, suspending or revoking the authorization of the supervised person to act in an investment-related business; (b) barring or suspending his association with an investment-related business; (c) otherwise significantly limiting his investment-related activities; or (d) imposing a civil money penalty of more than \$2,500 on him.

- C. Mr. Zaidlin has never been the subject of a self-regulatory organization (SRO) proceeding in which he:
1. Was found to have caused an investment-related business to lose its authorization to do business; or
  2. Was found to have been involved in a violation of the SRO's rules and was: (a) barred or suspended from membership or from association with other members, or was expelled from membership; (b) otherwise significantly limited from investment-related activities; or (c) fined more than \$2,500.
- D. Mr. Zaidlin has not been involved in any other hearing or formal adjudication in which a professional attainment, designation, or license of the supervised person was revoked or suspended because of a violation of rules relating to professional conduct.
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#### **Item 4 - Other Business Activities**

Michael Zaidlin is an attorney in the state of California and is an "active" member of the California while maintaining "active" status with the California Bar, has not actively practiced law for many years. Mr. Zaidlin, in his capacity as an Investment Advisor Representative and Managing Member of Madrone, does not provide any legal services whatsoever when serving a client of Madrone, nor is legal advice being provided in that capacity, nor is an attorney-client relationship formed between Mike H. Zaidlin or the law offices of Michael H. Zaidlin, and any client of Madrone. Clients should seek the counsel of a qualified attorney when necessary.

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#### **Item 5 - Additional Compensation**

Michael Zaidlin does not receive any performance-based fees and does not receive any additional compensation for performing advisory services other than what is disclosed in Item 5 of Part 2A.

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#### **Item 6 - Supervision**

Michael Zaidlin is the Chief Compliance Officer of Madrone. He is solely responsible for all supervision and formulation and monitoring of investment advice offered to clients. He will adhere to the policies and procedures as described in the firm's Compliance Manual. He can be reached at [mzmadrone@gmail.com](mailto:mzmadrone@gmail.com) or 415-785-4585.