

Form ADV Part 2A  
Investment Advisor Brochure

THOMPSON WEALTH MANAGEMENT, LTD



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***Cover Page***

Name of Registered Investment Advisor	Thompson Wealth Management, Ltd.
Address	9 Damonmill Sq. Ste 1F, Concord, MA 01742
Phone Number	(978) 287-5151
Website Address	<a href="http://www.twmltd.com">www.twmltd.com</a>
E-mail Address	teamtwm@twmltd.com
Date of Last Revision	03/31/2011

This Form ADV Part 2A (Investment Advisor Brochure) gives information about Thompson Wealth Management, Ltd. (TWM) and its business for the use of clients and prospective clients. If you have any questions about the contents of this brochure, please contact us using one of the methods listed above. 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.

Registration is mandatory for all persons meeting the definition of investment advisor and does not imply a certain level of skill or training.

Additional information about our firm is available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

This ADV disclosure brochure has been written in “plain English” style so as to give clear, straightforward information about our firm’s business, services, fees, investment philosophy and strategies followed in clients’ behalf, as well the risks posed.

***Material Changes***

Material changes to the ADV Brochure will be provided as a separate document to clients who have received previous versions of brochure.

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## ***Advisory Business***

### **Advisory Firm**

At Thompson Wealth Management, Ltd. (TWM) clients will discover a committed team of professionals focused on creating disciplined, risk appropriate investment strategies and clarity of purpose to generations of clients.

Thompson Wealth Management, Ltd. has been registered with the SEC as an investment advisor since 1991. Bruce Thompson is the founder and President. He has been in the financial services industry since 1982 and serves as the principal investment officer. Andrew Richardt, CFP®, Vice President of Wealth Management, has been with TWM since 2005 and serves as financial planner. (See Brochure Supplements for each Investment Advisor Representative).

Our practice has been set up to minimize conflicts of interest with you, in order to foster a constructive fiduciary relationship and a collaborative approach toward realizing your most important financial goals. All services are provided on a fee-only basis. We do not take or pay commissions, finder's fees or referral fees. Your investment accounts are established by you with a well known independent custodian/broker, and TWM's access to your money is limited to placing trades in your behalf. We don't accept referrals or soft dollars from brokers or other vendors, except when the benefits accrue directly to clients.

Neither TWM nor any of its Access Persons have any subsidiaries or interests in other businesses that might color or affect our advice to you. While we consult a wide range of research sources in conducting your investment strategies, we avoid organizational or compensation related influences on our thinking.

We guard our independence, not just because we wish to preserve the fiduciary nature of our relationship with you, but because we want to be able to think clearly and objectively about investment strategies and markets. We wish to avoid crowd dynamics, which lead to boom and bust thinking and deleterious behavior on the part of investors and professionals.

As reassuring as these practices may be, there will always be conflicts of interest, real and potential, in an advisory relationship and it would be misleading to indicate otherwise. It is our responsibility to think about conflicts and risks, and to disclose them to you. It is your responsibility to read this document and other disclosures we provide and understand how conflicts and risks might affect you. You should never be shy about asking us how various aspects of our business or advisory practices might impact you.

In undertaking to disclose conflicts and risks, it is not our purpose to "tilt at windmills." Rather it is our purpose to identify those conflicts and risks that are germane to our clients and our specific practice, services, relationships and investment strategies.

New conflicts and risks will arise with the evolution of the markets, investment products, and with changes in our business, services or personnel. On an annual basis we will give you a statement of *Material Changes* to this brochure to make it easy to identify such disclosures.

## **Brochure Supplements – Investment Advisor Representatives**

Bruce P. Thompson, President and Founder  
Brochure Supplement

Name of Supervised Person/IA Rep	Bruce Thompson
Address	18 Hunter Run. Sudbury, MA 01776
Phone Number	(978) 443-6614
Date of Last Revision	03/31/2011

### Experience

President, Thompson Wealth Management	1991-Present
Dean Witter Reynolds, Vice President Investments	1988-1991
Smith Barney Harris Upham, Vice President Investments	1985-1988
EF Hutton & Co., Account Executive,	1984-1985
IDS American Express, Financial Planner	1983-1984
Provident Institution for Savings, Management Trainee	1981-1983

### Education

Syracuse University, BA Economics/Political Science	1981
London School of Economics, N/A	1979
Harvard Extension, Special Studies, Portfolio Management	1997-1999

***Disciplinary information*** -- An investment advisor and its Investment Advisor Representatives must disclose material facts about any legal or disciplinary event that is material to a client's evaluation of the advisory business or of the integrity of the advisor. Bruce Thompson does not have any disciplinary disclosure items.

***Other business activities*** – The brochure supplement must describe the supervised individual's other business activities and any material conflicts of interest that such participation may create. It must also include information about any compensation – bonus or non-cash – that the supervised individual receives based on the sales of securities or other investment products, as well as an explanation of the incentives this type of compensation creates. Bruce Thompson does not have any related business activities.

***Additional compensation*** – The brochure supplement must describe arrangements in which somebody other than the client provides the supervised individual an economic benefit, such as a sales award or other prize, for providing advisory services. Bruce Thompson does not have any sources of additional investment business related compensation.

***Supervision*** – An investment adviser must explain how it supervises the supervised individual, including how it monitors the advice provided to the client by the supervised individual and must include the name, title, and telephone number of the individual's supervisor. As President and Chief Compliance Officer, Bruce Thompson is responsible for all advice provided to clients, and for establishing and enforcing Written Supervisory Procedures (WSP) designed to protect clients. The WSP establishes procedures designed to place checks on key man authority. For example, Mr. Thompson's personal trades are reviewed by Mr. Richardt. (Please see Code of Ethics for more information).

Andrew Richardt, CFP® -- Certified Financial Planner, Vice President Financial Planning  
Brochure Supplement

Name of Supervised Person/IA Rep	Andy Richardt
Address	220 Arlington St. Acton, MA 01720
Phone Number	(978) 430-4984
Date of Last Revision	03/31/2011

Education

Indiana University, Kelley School of Business, BA Business 1996  
Boston University, Certificate in Financial Planning 2005

Experience

Software Engineer, Leerink Swann (Investment Bank) 2004  
Software Engineer, William Blair

***Disciplinary information*** –An investment advisor and its Investment Advisor Representatives must disclose material facts about any legal or disciplinary event that is material to a client’s evaluation of the advisory business or of the integrity of the advisor. Andy Richardt does not have any disciplinary disclosure items.

***Other business activities*** – Andrew Richardt does not have any disclosure items.

***Additional compensation*** – The brochure supplement must describe arrangements in which somebody other than the client provides the supervised individual an economic benefit, such as a sales award or other prize, for providing advisory services.

***Supervision*** – Mr. Richardt is directly supervised by Bruce Thompson, Chief Compliance Officer. Mr. Thompson may be reached at 978-287-5151. Bruce Thompson is responsible for establishing and enforcing Written Supervisory Procedures (WSP) designed to protect clients.

## Advisory Services

TWM provides comprehensive investment and wealth management services to clients who recognize the important role that professional guidance and a cohesive strategy plays in the pursuit of financial stability and independence.

TWM works with a manageable and thriving list of clients focusing on the quality not the quantity of our relationships. Advice is based on the individual needs of each client and financial strategies are custom in nature.

TWM assures clients of direct speaking access to the principal investment officer, Bruce Thompson.

We do not manage pooled funds or farm money out to third-party (“separate” or “wrap account”) money managers. Clients enjoy a team approach, but are never assigned to a junior professional or client relationship manager.

Investments are held at a reputable independent qualified custodian, mainly Fidelity Investments Institutional Brokerage Services. Clients will receive from the custodian/brokerage firm timely confirmations and at least quarterly statements containing a description of all transactions and all account activity. The client will retain rights of ownership of all securities and funds in the account to the same extent as if the client held the securities and funds outside the program. In addition to custodial statements, TWM sends comprehensive quarterly reports to the client so that you know where you are in relation to your goals at all times

**Assets Under Management.** As of March 31, 2011, TWM has \$115,888,467 of assets under supervision. Approximately 96 percent of these assets are supervised on a discretionary basis, and the remaining 4 percent are managed on a non-discretionary basis. (See “Investment Discretion”). TWM supervises an additional \$14,132,464 in assets for which it does not provide continuous management.

**Advisory Service Models.** Clients have the flexibility to choose from four advisory service models based on individual circumstances and complexity of services required. Clients may choose a model that provides asset management, financial planning, or a combination of both. For clients who require comprehensive wealth management services, we offer a bundled fee option which we call “Personal CFO”.

- Approximately forty-five percent (45%) of our business is Investment Management services.
- Approximately fifty percent (49%) of our business is Personal CFO Wealth Management (which includes investment management).
- Approximately two percent (3%) of our business is hourly or flat fee Financial Planning services.
- Approximately three percent (3%) of our business is Retirement Plan Consulting services for 401(k) plan sponsors.

## **Investment Management Services**

We offer disciplined, endowment-style investment management services tailored to the needs of individuals and small to medium sized entities, such as retirement plans. We help clients create a sound, intelligent framework for making long-term investment decisions, and for preventing emotions from corroding that framework.

Each relationship begins with a financial review undertaken to determine the client's financial situation, risk taking capacity and investment objectives. TWM supplies a written investment policy statement summarizing the client's investment objectives, the investment management and asset allocation guidelines to be followed, as well as reporting and performance requirements. Clients have the opportunity to impose reasonable restrictions on the management of the account. Clients also have the ability to leave standing instructions with the advisor to refrain from investing in particular securities or types of securities, or invest in limited amounts of securities. Quarterly the advisor notifies the client in writing to contact the advisor if there have been any changes in the client's financial situation or investment objectives, or to impose or modify account restrictions. It is the client's responsibility to notify the advisor if there are any changes in the financial situation. Clients may call the office at any time during normal business hours to discuss directly with the advisor about the client's account, financial situation, or investment needs.

Every investment management engagement involves a financial plan and

- Education and ongoing communication regarding investment concepts, philosophy and the advisor's strategy.
- Development of an Investment Policy Statement (IPS) addressing asset allocation targets, expected rate of return, portfolio selection, a rebalancing plan as well as a strategy framework for responding to market fluctuations.

## **"PERSONAL CFO" Wealth Management:**

The Personal CFO model combines asset management with unlimited financial planning and continuous stewardship. As CFO we quarterback a client's overall financial affairs. We don't just do the planning, we get it done.

We provide continuous personal and business planning and financial coordination among a team of advisors, as applicable, including accountants, estate attorneys, bill paying services, insurance, real estate, lending and banking professionals. In addition to portfolio reports, CFO clients receive quarterly Personal Financial Statements tracking net worth, budgets and tax status. Clients always know whether they are on track to reach their most important goals, and that they have someone to turn to when problems and opportunities arise.

The Personal CFO model may provide a more objective and a more economical advisory model for certain clients. This may be the case when our advice, more than occasionally, will extend to the client's overall assets, liabilities, insurance and estate planning programs.

Advice given in connection with traditional asset management fee arrangements may involve conflicts of interest with respect to decisions that might result in lower assets under management and, therefore, lower management fees. Since Personal CFO fees are calculated based on total net worth, the advisor is agnostic with respect to broader allocation decisions. This includes advice

regarding mortgage debt, investment and vacation property, retirement and employee benefit plans, corporate stock options and concentrated stock positions, insurance policies, private investments, hedge funds, collectibles, gifting programs and charitable funds, etc.

### **Financial Planning Services**

The goal of planning is not to predict the future, but to prepare for it. Our focus is on creating a “Margin-of-Safety” in clients’ financial lives. We perform scenario analyses so that clients can assess the range of potential outcomes related to various goals, financial decisions and opportunities. The key to material happiness is the adoption of a standard of living which could be maintained with little difficulty under almost all economic conditions.

A standard financial review includes:

- A review of financial goals, risk tolerance (sleep factor) and investment related risk capacity (investment staying power), as well as an assessment of the adequacy of current savings levels to achieve those goals.
- Pre and post-retirement spending projections including the establishment of a savings program and help with budgeting and expense management.
- Financial projections using sophisticated modeling software to analyze the ability of your investment portfolio to support your financial needs in retirement.
- Monte Carlo Analysis to determine the probability that you won't run out of money in your later years, and portfolio Stress Testing to determine your margin of safety in case the future does not unfold as expected.
- Review of client’s assets and liabilities and recommendations for realignment.
- Tax planning to maximize wealth.
- Review of insurance policies and other risk management options to protect you from things that can go wrong.
- College funding plan.
- Estate planning to minimize future estate taxes and provide for efficient and loving transfer of assets.
- Plans that address other client-specific needs such as development of asset protection strategies, stock option analysis, strategic planning for closely-held businesses, as well as succession planning and exit strategies for business owners.

### **Retirement Plan Consulting Services**

TWM also provides Retirement Plan Consulting (RPC) services to sponsors of defined contribution plans. Our mission is to help small and medium sized plan sponsors observe their fiduciary obligations under ERISA to reduce costs associated with 401(k) plans, while increasing participation and consistency of investment results. RPC services are specified in a Letter of Engagement, based on the requirements of the plan sponsor.



## ***Fees and Compensation***

All services are provided on a strictly fee-only basis. We do not take commissions, finder's fees or referral fees. We believe our fee structure should encourage objectivity and support the fiduciary nature of the relationship.

When a client retains our services, a fee agreement normally is reached after completion of the initial comprehensive financial review, after each party has an understanding of the planning involved. Clients have the flexibility to select the most suitable fee option.

### **Investment Management Fees**

Investment management services involve continuous monitoring and responsibility for investment assets on a discretionary or prior consultation (non-discretionary) basis. Fees are charged as a percentage of the assets we are responsible for, subject to the following annual schedule:

1.00% of assets up to \$1,500,000\*  
0.75% of assets from \$1,500,000 to \$ 3,000,000  
0.50% of assets over \$3,000,000.

\*The minimum annual fee is \$3,000.

\*Clients may elect to pay a premium of .25% on the first \$3 million in assets under management in lieu of fees for ongoing hourly financial planning services

Separate related accounts within a household may be combined for the purposes of calculating the total fee.

### **Personal CFO Fees**

For Personal CFO services, TWM is compensated through a single fee calculated as a percentage of the client's net worth (assets minus liabilities). The fee rate usually ranges between .40% to .75% of net worth, depending on the relative planning complexity and composition of assets.

### **Financial Planning**

Every individual client engagement begins with a comprehensive financial review and risk capacity analysis. Clients pay a fee upfront in the amount of \$2,000 to \$5,000 depending on the time involved and the size and complexity of the estate. For investment management and Personal CFO clients, the fee is deducted from the first year's asset management fees.

Ongoing financial planning services are billed at the hourly rate of \$175.

Clients may authorize the deduction of financial planning fees directly from the custodial account.

Services for non- investment management clients are subject to a minimum annual fee of \$3,000. TWM will provide an advance estimate of the time required to complete a project and, based on the circumstances and needs of the client, may agree to a capped number of hours or a flat fee arrangement.

## **Retirement Plan Consulting Services**

Fees for retirement plan consulting services are specified in a Letter of Engagement. Fees range from .15% to .50% based on the suite of services offered. Factors include plan size and number of participants, whether TWM is accepting fiduciary status, whether we are providing advice on the plan or participant level, the number of enrollment, employee education and investment committee meetings required.

## **Other Fee Disclosures**

Fees are for advisory services only and do not include any transaction fees or commissions, which may be charged separately by the broker/dealer custodial firm. (See the section heading *Brokerage Practices* for more information.) TWM's investment strategies generally involve low investment turnover.

To the extent assets are invested in mutual funds, clients are paying costs to the fund's adviser as well as to TWM. Our mutual fund investments are mainly in low cost and institutional class shares.

Investment Management and Personal CFO fees are payable quarterly in advance. The first payment is due and payable upon execution of the Agreement, and will be assessed pro-rata in the event the Agreement is executed other than the first day of the new calendar quarter. Subsequent payments are due and will be assessed on the first day of each calendar quarter based on the value of the portfolio as of the last day of the previous calendar quarter.

Payment of fees may be paid direct by the client, or client may authorize the custodian holding client funds and securities to deduct TWM's advisory fees direct from the client account in accordance with statements prepared and submitted to the custodian by the advisor. The custodian will provide periodic account statements to the client. Such statements will reflect all fee withdrawals by the advisor. It is the client's responsibility to verify the accuracy of the fee calculation. The custodian will not determine whether the fee is properly calculated.

Fees may be negotiable based on a client's individual circumstances.

Fees are not collected for services to be performed more than six months in advance.

Personal CFO fees do not cover accounting, legal or other fees paid to outside advisers.

Personal CFO fees involve valuation risk with respect to illiquid assets. TWM has established procedures to mitigate these risks. On a quarterly basis, TWM send the client an updated balance sheet reflecting current investment values supplied by an independent pricing service. With respect to illiquid assets, it is our policy to rely on appraisals, or on a consistent agreed-upon valuation formula, or on the values supplied by the client. TWM sends a quarterly reminder to the client to update values.

## **Cancellation and Refund of Prepaid Fees**

The Client agreement may be cancelled at any time for any reason by either party by giving written notice to the other. Notice given by Client to Adviser shall be sent to the address specified in this document. Management fees billed in advance will be refunded, pro-rata, from the date

TWM receives written notice of termination to the date to which service has been prepaid. Upon termination of the Agreement, the Adviser shall perform no functions whatsoever with respect to the managing of the account(s) and further management of those accounts shall be the sole responsibility of Client. Notwithstanding the foregoing, Client's investment will be subject to market fluctuation during this period.

The Agreement for standalone Financial Plans terminates upon delivery of the plan or services. At this time no refunds will be made.

The Advisory Agreement contains a pre-dispute arbitration clause. Client understands that the agreement to arbitrate does not constitute a waiver of the right to seek a judicial forum where such a waiver would be void under the federal securities laws. Arbitration is final and binding on the parties.

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

Thompson Wealth Management, Ltd. does not charge performance-based fees, which is based on capital gains in the client account.

### ***Types of Clients***

Thompson Wealth Management, Ltd. provides advisory services to individuals, pension, profit sharing plans and other ERISA accounts, trusts, estates, and business entities. We work mainly with a select group of successful individuals, families and business executives who recognize the important role that professional guidance and a comprehensive wealth management strategy plays in the pursuit of financial stability and independence.

TWM does not impose a minimum dollar value of assets for starting or maintaining an account; the firm wishes to preserve its ability to work with a diversity of people. We do observe a minimum annual combined fee of \$3,000.

Exceptions are made for immediate family members and pro bono clients.

As a service to our clients, we offer each child and grandchild a complementary counseling session upon graduation from college or otherwise in which we familiarize them with basic financial concepts, the dangers of debt, and the virtues of saving and investing.

### ***Methods of Analysis, Investment Strategies, and Risk of Loss***

#### **“Margin of Safety”**

While TWM's portfolios are customized to meet each client's specific needs, we follow a common, systematic investment process that draws from our experience and the wisdom gathered from never ending study of investment history and the work of its most influential teachers.

The predominant investment systems of the last century were generated in academia. The precepts we take for granted relating to modern portfolio theory, e.g. asset allocation, diversification and market efficiency emanated from University of Chicago, MIT and Stanford. Fundamental securities analysis

came from the work of Benjamin Graham, a Columbia Business School Professor and Warren Buffett's mentor. More recently, research in behavioral economics from Daniel Kahneman of Princeton, and Robert Shiller of Yale have provided insights into the connection between markets and human psychology – the way people behave when investing under conditions of uncertainty (risk). Shiller's book *Irrational Exuberance*, and Graham's books -- *Security Analysis* and, *The Intelligent Investor* -- are perhaps two of the best ever written about investments. The chapter in Graham's *Intelligent Investor* entitled, "The investor and Market Fluctuations," should be on everyone's reading list.

While this wisdom is there for all to devour so few professional investors, let alone individuals, bother to actually read it and absorb the lessons. Accepted thinking filters through Wall Street and Main Street and becomes "Conventional Wisdom."

In our opinion, the most dangerous risk facing investors – and today we must all be investors to one extent or another – is accepting popular notions about investing and financial planning without hanging a big question mark on them. The answer you get may or may not be conclusive, but the critical risk management quality for any investment advisor is to ask the questions in the first place.

It obviously is dangerous when brokers selling subprime mortgages don't bother to read the fine print. Less obvious, however, is the risk associated with blind acceptance of an investment theory as pervasive as "Asset Allocation." Today many people are questioning portfolio theory after it "failed" to somehow protect investors in the recent financial crisis. The warning is right there in the classics as told by Graham. Many investment systems will work for awhile until they become popular. Asset allocation became widely accepted in the post-tech bubble era and money poured into those asset classes thought to offer diversification, e.g. commodities, emerging markets, real estate stocks, value stocks, etc. Prices rose so that those assets offered no more diversification than the market during the financial crisis. The "failure", however, is on the part of those who did not bother to read the fine print and twisted the central ideas of portfolio theory into a black box approach. Overconfidence led to too much risk taking and many investors paid the price when they sold in panic near the market bottom.

Asset allocation remains an exceedingly important part of portfolio policy, not the least because differences in asset allocation mix probably account for nearly 85% of the difference in returns among portfolios over the long run. Investors should be aware that the risk and return estimates provided by asset allocation tools are either derived from historical inputs or forecasts, neither of which can predict the future with any certainty. No black box will ever replace the judgment of a prudent advisor, nor should it displace common sense.

When we read a bullish report on the economy, we try to find a bearish one too. And when we read papers about portfolio theory and efficient markets, which say you can't time the markets, we dig out our Graham and Buffett material reminding us that it is a good idea to add to holdings when prices are very low and to take some of those holdings off the table when prices are very high, without regard to any economic forecasting or market timing schemes.

Our approach combines the best and discards the worst aspects of modern portfolio theory (asset allocation), fundamental securities analysis, and behavioral finance. We are long term investors. But we believe the motto "Buy and hold" comes with critical caveats. *We believe investors should "Buy and be patient, but by all means be shrewd about prices."*

Clearly the great weight of evidence is conclusive on the subject of market timing. The odds of success are low, and the trading, tax and opportunity costs are too high, as are the expense ratios of actively managed funds. Forecasting the economy or the direction of the stock market is a fool's errand.

The goal of planning is not to predict the future, but to prepare for it. Our focus is on creating a “Margin-of-Safety” in clients’ financial lives. Margin of safety means always asking, “What happens if the future does not turn out as planned?”

We perform scenario analyses so that clients can assess the range of potential outcomes related to various goals, financial decisions and opportunities.

We believe the key to material happiness is the adoption of a standard of living which could be maintained with little difficulty under almost all economic conditions.

The key to successful investing is to create a sound intellectual framework for decision-making, and to prevent emotions from corroding that framework.

Investors face two investment policy questions that must be placed in writing:

1. What will my asset allocation policy be?
2. How should my strategy respond to market fluctuations?

The most profitable portfolio for any investor is likely to be the asset mix they can mostly stay with during market ups and downs. It is critical to build staying power by properly aligning risk exposure with financial planning risk capacity and your “sleep factor” -- your comfort with volatility.

TWM has a seasoned process called RISK CAT MATRIX for helping clients estimate their risk capacity and tolerance.

TWM uses a disciplined investment approach in constructing widely diversified portfolios. We typically use very low cost, tax efficient, no-load mutual funds from Vanguard, Fidelity and Dimensional Fund Advisors to build a core portfolio comprised of various bond sectors, domestic equities, foreign and emerging market equities, REITS and commodity indexes. This enhances diversification.

When circumstances warrant, TWM builds an overlay of high quality stocks selected based on a margin of safety calculation. We tend to focus on companies that are trading at a low price relative to intrinsic value and provide attractive dividend yields. While portfolio theory demands that “volatility” as measured by standard deviation is the only risk measure that counts, clients tell us something different. Clients are also concerned about shortfall risk, e.g. the risk that they will not have enough money when they need it, and about the risk that they may interrupt an investment plan at the wrong time. Owning high dividend paying stocks may not statistically raise returns or reduce volatility. But they may help a client stay with an investment program through difficult market periods and, therefore, this lowers an intangible risk.

We regularly assess investment results at the portfolio and individual holding levels, and carefully track portfolio risk characteristics. TWM clients receive quarterly reports that illustrate risk-adjusted returns, and compares returns against appropriate benchmarks.

TWM can modulate equity exposure within limitations written into each client’s investment policy statement. Our goal is to increase equity exposure when the market is low, and decrease exposure when the market is extremely high as indicated by standard measures of valuation. At one high price an investment is speculative and risky, and yet at a low price it provides a margin of safety against future uncertainties.

If you break the last one hundred years of stock market returns into rolling ten-year periods, you find that extremely low priced markets were followed by periods of higher than average returns. Extremely high priced markets were followed by periods of lower than average returns.

Thompson Wealth Management believes that there are five drivers of portfolio performance. We take a Hub and Spoke Approach to them based on their relative contribution to long run returns and risk, and the requirements of each individual portfolio:

#### Hub -- determines 75% of portfolio returns - Passive Management

1. Long Term Asset Allocation Policy (balance among asset classes, e.g. cash, stocks, bonds, real estate, precious metals, etc.)
  - Manage market risks.
  - Rebalancing is critical to maintain target risk.
  - Risk Tolerance Score - Do you want to eat well or sleep well? Invest in risky assets only so far as you can stand the volatility, and be honest. Risk tolerance best determined by objective third party.
  - Risk Capacity Score - How much risk can you afford to take given overall financial condition? Spending vs. saving, debt vs. equity, emergency reserves, contingency plans?
  - Time Horizon is key, but most investors have multiple time horizons. Matching assets with liabilities (money needed to meet short, intermediate and long term goals) is crucial to sustainable investment plan.
  - Human Capital - is your earned income stable and bond-like, or more uncertain and stock-like? Bond-like human capital = more equities in portfolio. Stock-like human capital = more bonds in portfolio.
  - An advisor must understand the limitations of asset allocation (portfolio theory) to use it responsibly. Wisdom and experience are needed to constrain “black box” approach.
  - Avoid over reliance on historical risk and return data
  - Correlations between asset classes change over time due to globalization, etc.
  - One does not have to drink all the Cool-aid related to efficient market theory to benefit from powerful asset allocation tools.
  - Passive Investment -- Portfolio Hub is passively invested in low cost index or core funds with minimal turnover.
  - Volatility (standard deviation) is but one dimension of risk;
  - Private clients also concerned about “Shortfall risk” - will I have enough money when I need it to meet my goals.
  - Focus on absolute return benchmarks - “Am I meeting my real return goals?” - Leads to long term, risk appropriate portfolio decision making;
  - Focus on relative return benchmarks - “How am I doing compared to market(s)?” - encourages short term decision making.
2. Diversification (Beta -- within an asset class)
  - Manage non-market risks
  - Max diversification = market return and risk;
  - Less diversification = more return or loss.
3. Taxation and Expenses
  - Focus on index and core funds with very low expenses and low turnover;

- Individual stocks and bonds = lowest costs if turnover is low.
- Manage gains and losses; manage between taxable and non-taxable household accounts.

### Spoke -- approximately 25% of portfolio returns - Active Management (Alpha)

#### 1. Market Timing/Tactical Asset Allocation (moving in and out of asset classes, e.g. stocks and bonds).

- “You can't make just one.” Timing moves are not independent. A timing move requires another timing move and another, etc. The collective odds of success (outperforming a passive portfolio) are very low over a lifetime of investing, especially after taxes and costs.
- Investors are not very good at thinking about odds unemotionally.
- Still the market is not perfectly efficient. Crowd psychology - shared errors in perception -- leads to occasional miss-pricing of entire asset classes.
- Tactical Asset Allocation moves should be based on price/valuation and future returns.
- Benjamin Graham “golden rule”: *the return on any investment is linked to the price you pay for it*. High prices = low future returns. Low prices = high future returns.
- Economic inputs should be minimized. Resist temptation to oversimplify extremely complex global forces. Timing is difficult because precipitating economic forces are not well synched with major market events.
- TWM employs a disciplined model so as to constrain ad hoc, emotional decisions or economic inputs. The model has been constructed based on the research database of Dr. Robert Shiller (“Irrational Exuberance”) of Yale University. The model seeks to indicate, compared to historical levels, when stock prices are dangerously high and susceptible to major bear markets, and when future 10 year returns are apt to be lower than average. The model also seeks to indicate the historical levels when prices have been opportunistically low (future 10 year returns were high). With emphasis, the model is not designed or effective as a short term trading mechanism. Past results are not a guarantee of future returns.

#### 1. Security Selection (Stock picking).

- Dividend income is key focus in equity allocations for retirees or those preparing for retirement. We believe a substantial proportion of equities' long term historical return is attributable to dividends and dividend growth. Dividend stocks may not be less risky when measured by standard deviation of returns (volatility). However, when viewed in terms of shortfall risk, the dividend focus may reduce risk substantially and de-emphasizes dependence on less certain capital gains. TWM selects individual stocks by “cherry picking” dividend indexes. Analyzing data purchased from independent research sources, we then apply a set of fundamental screens to assess current yield, expected dividend growth and dividend sustainability. This further allows us to tailor individual portfolios based on these same characteristics.
- Liquidity Premium. Underlies style investing, e.g. growth vs. value, large cap vs. small cap. It is well accepted that, over the long term, small cap stocks and value stocks have significantly outperformed large cap growth stocks. We believe the excess return is primarily attributable to the premium paid for recognizable growth stocks that are highly liquid. Investors pay up for liquidity (the ability to get out of an investment easily). Higher price paid equals lower return. Lower price paid equals higher return. Clients with long term orientations who are willing and able to give up liquidity may capture additional return premiums by purchasing securities in the lower quartile of stocks as parsed by trading volume.

### ***Disciplinary Information***

An investment advisor must disclose material facts about any legal or disciplinary event that is material to a client's evaluation of the advisory business or of the integrity of its management personnel. Thompson Wealth Management, Ltd does not have any disclosure items.

### ***Other Financial Industry Activities and Affiliations***

Thompson Wealth Management, Ltd is not and employs no reps registered, licensed or obligated to do business with any specific company, including but not limited to the following entities below.

- broker-dealer, municipal securities dealer, or government securities dealer or broker
- investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund)
- other investment advisor or financial planner
- futures commission merchant, commodity pool operator, or commodity trading advisor
- banking or thrift institution
- accountant or accounting firm
- lawyer or law firm
- insurance company or agency
- pension consultant
- real estate broker or dealer
- sponsor or syndicator of limited partnerships

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

#### **Code of Ethics**

Thompson Wealth Management, Ltd. has adopted a Code of Ethics, the full text of which is attached. We have several goals in adopting this Code. First, we desire to comply with all applicable laws and regulations governing its practice. Compliance with such regulations is a signal to clients that our fiduciary obligations are paramount and that we support the efforts of those organizations dedicated to upholding the law. The management has determined to set forth guidelines for professional standards, under which all associated persons are to conduct themselves. We have set high standards, the intention of which is to protect client interests at all times and to demonstrate its commitment to its fiduciary duties of honesty, good faith and fair dealing with clients. All associated persons are expected to strictly adhere to these guidelines, as well as the procedures for approval and reporting established in the Code of Ethics primarily related to personal securities transactions, and violations of the Code. This will serve to educate associated persons regarding appropriate activities. Annually we will offer to provide you with a copy of our Code.

#### **Privacy Policy:**

Protecting client privacy is very important to TWM. We view protecting customers' private information as a top priority and, pursuant to the requirements of the federal Gramm Leach Bliley Act; the Firm has instituted policies and procedures to ensure that customer information is kept private and secure. The full text of our Privacy Policy is attached. We will provide you with an annual Privacy Policy Notice.

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



TWM does not act as principal in client transactions. Nor does it act as broker or agent in effecting securities transactions for compensation for any client or for anyone else.

### **Personal Trading**

It is impermissible for any access person of TWM to purchase or sell any security which he or she actually knows at the time is being considered for purchase or sale for the account of any TWM client if such access person would thereby realize a market advantage or if such purchase or sale would otherwise adversely affect any client.

At times TWM and/or its access persons may take positions in the same securities as clients, and we will try to avoid conflicts with clients. The Advisor and its access persons will generally be "last in" and "last out" for the trading day when trading occurs in close proximity to client trades. We will not violate the Advisor's fiduciary responsibilities to our clients. Scalping (trading shortly ahead of clients) is prohibited. Should a conflict occur because of materiality (i.e. a thinly traded stock), disclosure will be made to the client(s) at the time of trading. Incidental trading not deemed to be a conflict (i.e. a purchase or sale which is minimal in relation to the total outstanding value, and as such would have negligible effect on the market price), would not need to be disclosed at the time of trading.

### **Insider Trading Policy:**

In accordance with Section 204-A of the Investment Advisers Act of 1940, Adviser also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information, i.e. insider trading by Adviser or any person associated with the Firm. A copy of our Insider Trading Policy is available upon request.

### **Brokerage Practices**

We do not take or pay commissions, finder's fees or referral fees. Your investment accounts are established by you with a reputable independent custodian/broker, and TWM's access to your money is limited to placing trades in your behalf.

We don't accept referrals or soft dollars from brokers or other vendors, except when the benefits accrue directly to clients.

### **Selection or recommendation of broker/dealers**

For Personal CFO and Investment Management programs it is recommended, and clients may choose to implement trades through a discount broker. We recommend Fidelity Investments Institutional Brokerage which customarily supplies institutional services to investment advisers and their clients. The selection is made on the discount rates and execution services available to the client. We perform due diligence on costs and services provided by competitors in the industry and remain committed to recommending a custodial arrangement that allows us to fulfill our fiduciary obligations to clients. In addition to commission costs, trading efficiency, and timeliness of executions, we consider the quality of service, responsiveness of brokerage personnel and back office operations. We also consider account statement features, the availability of no-load/no-transaction fee mutual funds, online trading and the availability of retirement plan services. Wealth management services are also important, such as trustee and agent trust and services relating to assisting clients with concentrated equity positions.

A major factor is the ability of the custodian to provide automated transfer of account related and transaction data via electronic interface to our firm's portfolio management system. This enhances management and reporting of client portfolios, allowing for real time, continuous supervision of portfolios. This service reduces our firm's administrative expense. Clients should be aware that they might receive more deeply discounted brokerage at institutions which might not offer some of these services. Clients may pay transaction fees to Fidelity or National Financial Services for the purchase of "no-load" funds. Fidelity and National Financial Services provides the client with consolidated statements.

### *Best Execution*

In addition to the due diligence described above, TWM has established procedures for observing our obligations in this regard. Most importantly, we will continue to communicate with clients, seek feedback on the custodial relationship and research what is available from other custodians. On a quarterly basis we will obtain and review broker's required best execution reports. We will compare commission charged against the published commission schedule. We also perform random tests for execution timeliness and responsiveness of customer service.

### *Directed Brokerage*

Clients may select their own custodian. The custodian needs to offer access to the specific services and products that will allow us to implement the agreed upon investment strategy in a consistent, efficient and cost effective manner. For discretionary accounts, the custodian must allow TWM to place transactions in the account in the client's behalf and should be able to send transaction confirmations and copies of account statements to TWM. In addition, the custodian must be able to send periodic account statements directly to the client and not through the adviser. (See Item 14 relating to Custody).

### *Trade Aggregation*

#### Bunched Orders:

In placing transactions with a broker for execution, TWM may aggregate or "bunch" those orders on behalf of two or more of its accounts, so long as the bunching is done for purposes of achieving best execution, and no client is systematically advantaged or disadvantaged by the bunching. The adviser may include accounts in which its officers, employees or related persons have an interest in a bunched order.

#### Principal and Agency Cross Transactions:

Occasionally, if it is in the best interests of each client, TWM may ask a broker to cross a security between the accounts of different clients. TWM effects such transactions through a broker and not as a principal, and does not receive compensation for arranging the transaction.

### ***Review of Accounts***

Thompson Wealth Management, Ltd. continuously monitors both the risk and the return aspects of a portfolio and issues in depth appraisals on a quarterly basis. TWM employs a sophisticated, computer based portfolio management system which aggregates clients' assets held at an outside custodian. The custodian provides both the client and adviser with regular account statements. TWM recommends custodians that have the capacity to send portfolio and transaction data to TWM via electronic interface with our portfolio management system. This allows us to efficiently supervise and manage client

portfolios on a consistent basis. We set asset allocation models for each client and monitor compliance on a continuous basis. Further, we evaluate how proposed portfolio changes might affect potential risk and return. We construct target benchmarks so that each client may compare portfolio performance in a relevant manner. Importantly, our system allows us to monitor both return and risk by several different measures.

Each account is reviewed on a quarterly basis in conjunction with the preparation and presentation of a comprehensive quarterly Portfolio Report. This review involves evaluation of portfolio performance and risk data in comparison with client objectives and with other similarly situated portfolios. It involves a review of the asset allocation in comparison with the portfolio policy and of whether rebalancing is desired. Interim reviews are based on certain triggering factors including: 1) a significant change in financial circumstances; 2) significant deposits and withdrawals or planned cash flows; 3) significant changes in the markets that may affect asset allocation; 4) a decision to implement a tactical switch between asset classes or to effect a specific fundamental strategy; 5) the request of a client; 6) income tax considerations.

On a quarterly basis clients are invited to review the portfolio report and investment strategy. On an annual basis clients are called to arrange a comprehensive meeting to review the client's financial circumstances, to revisit the comprehensive plan, risk parameters, investment strategy, and to review their objectives in conjunction with the investment plan. In addition, we may set forth a timetable to address planning issues in the year ahead. Interim meetings may be held to address specific financial planning objectives, or at the request of the client. It should be noted that, in the end, this review schedule is driven by the client. Some clients wish to be in contact more or less frequently and we offer the flexibility to accommodate client's needs in this regard.

### ***Client Referrals & Other Compensation***

Thompson Wealth Management, Ltd. does not have any arrangements where it is paid in cash or receives economic benefit from a non-client in connection with giving advice to clients or for client referrals.

TWM does not have any arrangements through which it directly or indirectly compensates any person for client referrals.

### ***Custody***

TWM is deemed to have custody of client funds solely because of the fee deduction authority granted by the client in the investment advisory agreement. It is the established policy of our firm to not hold custody of client cash, securities or other marketable assets. We view the separation of advisory and custody services as an important safeguard for our clients, and essential in avoiding the potential conflicts of interest that may exist at large firms.

Assets are maintained at "qualified" custodians, which include the types of financial institutions that clients customarily turn to for brokerage and custodial services. TWM will send the client a fee statement detailing the amount of the fee and how it was computed along with a statement showing the account valuation. The custodian will report the fee on its account statement. Clients will receive account statements at least quarterly from the broker dealer or other qualified custodian. Client is urged to compare custodial account statements against statements prepared by TWM for accuracy. Minor variations may occur because of reporting dates, accrual methods of interest and dividends, and other factors. The custodial statement is the official record of your account for tax purposes. Qualified

custodians must be able to send transaction confirmations and periodic account statements directly to the client (and not through the adviser) while providing a copy to TWM.

### ***Investment Discretion***

Clients customarily agree to give Thompson Wealth Management discretion to implement an agreed upon investment strategy by determining the specific securities to be bought or sold and the amount of the securities to be bought or sold without obtaining specific consent. The authority is limited to transactions placed through a qualified independent account custodian and does not include the power to issue, disburse or transfer client assets. The custodian promptly notifies the client of all transactions by mailed confirmation. Limits on discretionary authority are determined further by the investment policy framework agreed upon with the client, which may include specific instructions given by the client. Guidelines may be spelled out in a written "Investment Policy Statement".

Occasionally, TWM agrees to manage client assets on a "Prior Consultation" basis. Clients are consulted with respect to individual securities transactions before execution. TWM maintains continuous portfolio supervision and, with consent, may exercise discretion with respect to price and timing of the transaction.

TWM does not have the authority to determine, without obtaining specific client consent, the broker or dealers to be used or the commission rates paid.

### ***Voting Client Securities***

Thompson Wealth Management has the authority to vote proxies, unless the client otherwise specifically directs. Clients may contact TWM to obtain information on how proxies were voted in behalf of the client. TWM votes proxies in the best economic interest of the client, and not in the interest of our firm. While it is unlikely that we will have a material conflict when voting client proxies, a conflict could arise from time to time. We can resolve such conflicts to include but not limited to: documenting that votes were cast in the interest of the client; relying on objective third party advice or standing voting guidelines; obtaining client's informed consent to vote a proxy in a specific manner; abstaining on the matter. When seeking a client's consent, we will provide the client with sufficient information regarding the matter and the nature of the conflict to enable the client to make an informed decision. There may be times when refraining from voting a proxy is in the client's best interest, such as when the cost of voting exceeds the expected benefit to the client. The full Proxy Policy is available on request.

### ***Financial Information***

An investment advisor must provide financial information if a threshold of fee prepayments is met; there is a financial condition likely to impair the ability to meet contractual commitments; or, a bankruptcy within the past ten years. Thompson Wealth Management does not have any disclosure items in this section.