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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 the brochure.

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## ***Advisory Business***

### **Advisory Firm**

Thompson Wealth Management, Ltd. (TWM) is a boutique investment-advisory firm, providing ongoing portfolio management and financial planning for an intentionally limited number of individual clients and related entities. TWM has been registered with the SEC as an investment advisor since 1991.

Clients will discover a committed team of professionals focused on creating disciplined, risk appropriate investment strategies and clarity of purpose to generations of clients. 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 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.

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. We obtain research almost exclusively from independent sources and avoid organizational and compensation-related influences on our thinking and in our business with you.

There will always be conflicts and potential conflicts of interest in an advisory relationship. It is our responsibility to identify those conflicts and disclose them to you in this document. You should read this document and other disclosures we provide and consider how those conflicts and risks might affect you. Please do not hesitate to inquire about our business practices.

New conflicts may arise with changes in the investment markets, products, regulations, and the technology we use, as well as 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.

## **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.

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. TWM supervises an additional \$14,132,464 in assets for which it does not provide continuous management. Approximately 96 percent of our assets under management are supervised on a discretionary basis, and the remaining 4 percent are managed on a non-discretionary basis. (See “Investment Discretion”).

**Advisory Service Models:** Clients have the flexibility to choose from three 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”.

## **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 our own natural instincts from becoming our own worst enemy.

Each relationship begins with a financial review undertaken to determine the client's financial situation, risk taking capacity and investment objectives, and to establish a logical basis for accepting or rejecting risk. 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.
- 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.

### **"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 Services**

TWM also provides investment and consulting services to sponsors of defined contribution plans. Our mission is to help small and medium sized plan sponsors observe their fiduciary obligations under ERISA, and to reduce costs associated with 401(k) plans, while increasing participation, retirement savings, education and consistency of investment results. Services are specified in a Service Agreement, based on the requirements of each plan sponsor.

TWM accepts fiduciary status as an "investment manager" under Section 3(38) of ERISA, meaning the adviser makes discretionary decisions with respect to selection of plan investment options, and with respect to the management of model asset allocation portfolios, if applicable. In some cases, TWM may serve in a fiduciary role as an "investment adviser" under Section 3(21) of ERISA, in which case TWM provides consulting, fiduciary monitoring and investment advice to the plan sponsor, but the client makes final decisions with respect to selection of investment options.

TWM works with plan sponsors to establish an investment committee and an overall program of procedural diligence. We formulate customized investment policy statements and give benchmarking and expense disclosure reports to trustees.

Generally, we recommend "open architecture" plans. With this type of plan, services such as administration and custody, investment management and investment education/advice are "unbundled" – offered by independent, replaceable entities. This enables small to medium sized 401(k) plans to

obtain institutional pricing, fee transparency, maximum flexibility and objective investment advice for their participants.

TWM recommends and monitors primarily independent third administrators, which provide plan documentation, reporting, recordkeeping, custody for plan assets, web based interfaces and tools for participants and sponsors. TWM selects and monitors the investment options to be included in each plan and has the flexibility to pick from a nearly unlimited universe of mutual fund managers, and to replace those managers as necessary.

Our firm also constructs, manages and rebalances model asset allocation portfolios which participants may select based on individual risk tolerance and financial circumstances. These models are broadly diversified among many asset classes and are comprised mainly of low cost, index specific mutual funds and exchange traded funds providing pure and consistent exposure to each asset class. TWM provides access to a risk assessment system for matching participants with risk based models.

Our plan level services include enrollment and education meetings designed to drive participation and appropriate usage of investments. TWM can supervise and flag outlying investment activity. Depending on the size of the plan and services specified in the agreement, TWM may provide individualized asset allocation and retirement planning advice.

TWM receives no compensation from third parties in connection with retirement plan services. TWM's fees may be paid by the plan sponsor or charged to individual participants' assets in accordance with procedures specified in the service agreement.

### ***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**

Under the Personal CFO model, 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 clients who retain our investment management or "Personal CFO" services, this amount is rebated in equal installments against the first four quarterly advisory 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 Service Agreement. Fees range from .15% to .60% based on the suite of required services. Factors include plan size and number of participants, whether TWM is accepting fiduciary status, whether we are providing investment 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***

*The discussion in this section relates to our investment management and supervisory services.*

#### ***Philosophy***

While all portfolios are individually managed, our firm follows a common, systematic process driven by our experience and investigations into those strategies that have and have not worked for individuals over time. TWM's financial planning and investing philosophy – margin of safety -- serves as both a compass and a map for the firm and its clients.

When planning our personal finances, margin of safety means asking what happens if the future doesn't turn out as planned. We can't predict the future, but we can prepare for it and manage its uncertainties. These principles are exemplified by Ben Graham, which his student Warren Buffett would surely agree with:

“The further one gets from Wall Street the more skepticism one will find as to the pretensions of market timing or stock market forecasting. The odds of success are absurdly low. If you expect to get rich by following market forecasting or guessing market leadership, you must be expecting to do what countless others are aiming at, and to be able to do it better than your numerous competitors in the market. There is no basis either in logic or experience for assuming that any investor can anticipate market movements more successfully than the general public, of which he is himself a part.”

Investment success depends on the ability to maintain a patient, businesslike mindset even as the markets, and our emotions, constantly swing between unsustainable optimism and unjustified pessimism. There is a fundamental connection between the margin of safety in our personal finances and our behavioral ability to avoid what Buffett calls “the endless cycle of investors zigging when the markets are zagging.”

When we focus on managing those things that are within our control, rather than on the market's mood swings, we gain a Basic Advantage in the market over those who do not. And this includes many on Wall Street who for professional reasons must act as though they have a crystal ball.

TWM's recommended investment policy, called *Intelligent Asset Allocation*<sup>1</sup>, incorporates margin of safety value disciplines into a core, endowment-style asset allocation strategy. These integrated strategies represent a diversified approach to risk management. While asset allocation embraces a risk appropriate “buy and hold” methodology, margin of safety disciplines might be characterized as “buy and be patient – but pay some attention to the price/valuation at which investments are held.”

The benefit derived from TWM's integrated approach is not only pecuniary, but also psychological. The margin of safety process instills contrarian habits -- a healthy wariness about following the crowd and

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<sup>1</sup> This is a reference to Graham's margin of safety manifesto, [The Intelligent Investor](#).

getting caught up in the whims and moods of the market, which we believe is one of the biggest risks facing investors.

***Framework:***

TWM's overarching role is to help clients adopt a sound, intelligent framework for making financial decisions, and for staying on track toward life's most important goals. When it comes to investing, our own natural instincts can be our own worst enemy. This is illustrated in an annual study conducted by Dalbar, a financial research firm that looks at how mutual fund investors' behavior affects the returns they actually earn. In the 20-year period ending in 2010<sup>2</sup>:

- The average stock fund investor earned 3.8 percent annually versus 9.1 percent for the S&P 500 Index;
- The average "asset allocation" fund investor earned just 2.56%;
- The average bond fund investor earned only 1.0 percent annually versus 6.90% percent for the Barclays US Bond Index.
- The average stock investor barely beat inflation and the average bond investor barely grew his money at all.

The key to closing this performance gap is a scientific approach focused on managing those variables of risk and return that can be controlled:

- Asset allocation
- Diversification
- Price
- Behavioral alpha – investors who think long term gain behavioral alpha from those who don't.
- Staying power – a proper financial foundation to support a patient, businesslike mindset
- Active management risk -- purchase index funds that provide consistent, pure exposure to carefully balanced asset classes
- Expenses – buy low cost, institutional mutual fund shares
- Taxes and Trading costs – trade infrequently and cheaply

Market timing and economic forecasting rarely work and play a minimal role in our portfolio management. The expenses and opportunity costs can deprive you of the potential returns available in markets over the long run: transaction fees, taxes, bid and ask spreads, market impact costs and high actively managed fund expenses.

Less obvious are the heavy costs associated with "following the crowd." By buying securities only after prices have risen, and selling only after a downtrend has firmly exerted itself (momentum investing), investors overpay for investments and sell them at discounts; this shows up as lower returns over the long run. This is reflected in investors' tendencies to chase recent mutual fund winners, hot stocks, asset classes, countries and sectors.

Each relationship begins with a comprehensive financial review which establishes a logical basis for taking or rejecting risk. TWM carefully evaluates each client's financial planning risk taking capacity and risk tolerance. When you invest only within your financial and emotional capacity to accept risk, you

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<sup>2</sup> Dalbar Quantitative Analysis of Investor Behavior (QAIB), 3/2011. The fact that "buy and hold" strategies have been successful in the past does not mean they will be successful in the future.

gain a basic advantage over market participants who do not. This is a vital step toward adopting a patient, businesslike mindset.

TWM assists clients in articulating realistic objectives and in understanding and accepting the risk and return trade-offs involved in a balanced investment program. Using scenario analysis, we help clients consider the range of potential outcomes associated with various financial strategies, and provide planning advice to increase the odds of success. Through the use of quantitative portfolio tools we “back test” performance of recommended portfolios. The past performance of an investment never guarantees what will happen in the future, but it is still an important tool. A historical perspective can alert you to the kinds of declines you should be prepared for – an awareness that’s essential to managing your risk.

TWM prepares a customized Investment Policy Statement to support the investing framework. The IPS establishes agreement on the strategies to be followed and provides guidelines, restrictions, and a joint statement of objectives for the investment management relationship. Among other factors, there are two key questions that a durable investment policy statement must address *in writing* without equivocation:

- What is the appropriate strategic (long-term) mix of conservative and growth assets in relation to the client’s goals and risk taking capacity?
- How should the mix of assets be changed in response to market or economic fluctuations, if at all? (Hint: through *pricing*, not *timing*.)

### Intelligent Asset Allocation

TWM’s recommended investment policy is called *Intelligent Asset Allocation*, which incorporates margin of safety value disciplines into a core, endowment-style asset allocation strategy. We believe this integrated policy makes common sense adjustments to buy and hold asset allocation strategy as it applies to individuals. Asset allocation theory was developed around the needs of pensions and endowment funds which have very long term investment objectives. Individuals have less long term time horizons and they tend to view risk differently, requiring more sensitivity to the prices at which investments are held.

- **Asset Allocation.** The asset allocation decision determines up to 90% of differences in portfolio returns, ten times more than market timing or security selection. Asset allocation is a useful tool for managing *systematic risk* (see risks) because different categories of investments respond to changing economic and market conditions in different and usually unpredictable ways. By including many different asset classes in your portfolio, you’re reducing the risk of major losses that can result from over-emphasizing a single asset class, no matter how positive the returns may seem.

Asset allocation is a coordinated portfolio strategy where the risk and return characteristics of the whole portfolio are more important than the individual investments. When we choose new investments it is with an eye to what you already own and how a new investment helps to achieve balance. By combining volatile and price stable investments in a single portfolio, the goal is to produce more return for a given level of risk, or less risk for a given level of return.

The modeled or target asset mix for bonds stocks and other asset classes is spelled out in the IPS. Core investments are made in a risk appropriate mix of low cost, passively managed bond, stock and alternative asset class index funds. Index funds provide consistent, tax efficient exposure to the carefully crafted and balanced asset mix.

ALM – Asset Liability Matching: The behavioral aspect of investing plays a role in our asset allocation methods, especially with respect to those in or nearing retirement. We utilize a “cookie jar” method for determining asset allocation and matching assets to the short, medium and long-term withdrawals a client will take. Money needed in one to three years is held in very short term, low risk investments. Then ten years’ worth of withdrawals is held in fixed income investments, while longer

dated liabilities can be invested in more variable growth assets. The overall mix between stocks and bonds may not be much different than that figured using modern portfolio theory methods. But the client is helped by the view that the stock assets should not be needed for ten to fifteen years.

- **Diversification.** A sense of the past can tell you which asset classes have provided the strongest return over time and what their risk is. Diversification with its emphasis on variety, allows you to manage non-systematic risk by tapping into the potential strength of sub-asset classes which tend to do better in some periods than in others. For example, there are times when small cap stocks outpace larger, more stable companies and vice versa. Similarly there are times when interest rate sensitive government bonds outperform credit risk sensitive bonds, and vice versa.

While you can recognize historical patterns that seem to indicate a strong period for a particular asset class or sector, the length and intensity of these cyclical patterns are not predictable. Rather than speculate, it is important to maintain a broad representation in many asset classes at a given time.

Historical data indicates that diversification into a certain sectors such as small cap, value, emerging markets, real estate, etc., can provide higher return for a level of risk. However, a client must be aware that a broadly diversified portfolio will look and perform differently than the S&P 500 Index.

- **Strategic Rebalancing.** The portfolio is rebalanced systematically to maintain the target asset allocations and risk exposure. This so called *strategic rebalancing* is critical because it keeps the proportion of stocks and bonds in line with the target policy and forces you to do some selling when prices are high, and buying when price are low. We believe this increases return and reduces risk over the long run. The *strategic rebalancing* process takes discipline because it often means selling the asset class that is in favor and purchasing one that is not popular.
- **Margin of Safety – Global Selected Securities.** A portion of the bond and stock allocations may be invested in individual stocks and bonds. Stocks are selected primarily based on margin of safety value analysis and dividend income potential.<sup>3</sup> In a common stock the margin of safety compares a company's demonstrated (not forecast) earning power to the going rate for Treasury bonds. Corporate and credit sensitive bonds may be purchased when the additional yield provides a sufficient margin of safety.
- **Tactical Rebalancing – Margin of Safety.** This is a more vigorous approach to rebalancing than provided by asset allocation practice. It is not a bad idea to occasionally change your portfolio mix moderately *in the opposite direction* of valuation. This involves selling a portion of stocks when prices are very high in relation to an objective historical measure of valuation, and buying when they are low. A slice of the overall portfolio is designated as a "tactical pot" for modulating exposure within a prescribed range for stocks, bonds and cash.

Tactical rebalancing is guided by margin of safety valuation analysis applied to the overall market. We use an internally developed model based on data and methods provided by Yale behavioral economist Robert Shiller.

Rebalancing based on *pricing* is carefully distinguished from market *timing*, which we believe leads to poor results. Timing focuses on forecasting unknowable events and the market effects of those

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<sup>3</sup> Dividend paying stocks may provide no greater return and may be no less risky than an index fund if risk is defined solely as "volatility". But if owning stocks that pay a healthy cash flow reduces worry and encourages a patient, businesslike mindset then the risk is indeed lower and the portfolio return is likely to be higher over the long run, as are the chances that the client will reach their goals. The earnings yield produced by a company isn't as tangible because this is often allocated to research and development, buying back stock, paying down debt, buying other companies, etc. But if a temporary drop in the price of an otherwise good quality company moves the dividend yield up from 3 percent to 5 percent, we're more apt to view that in the same way that we view a big sale down at Macy's.

events, which are often counterintuitive and out of sync with the precipitating event. Too often timing involves buying after the market has risen and selling after a downtrend has been firmly established.

The benefit derived from this more vigorous form of rebalancing is not only pecuniary, but also psychological. The process instills the habit of buying low and selling high, as well as a healthy wariness toward following the crowd, which we believe is one of the great risks facing investors.

### **Types of Risk**

While there is risk in all investments, some carry a greater degree of risk or higher costs. There is no guarantee that the investment strategy selected for the client will result in the client's goals being met, nor is there any guarantee of profit or protection from loss. Investing in securities involves risk of loss and clients should be prepared to bear that risk.

TWM relies heavily on an asset allocation strategy which seeks broad diversification by owning many different types of assets with different risk and return characteristics. The emphasis is on how assets mix together in a portfolio, and the risk and return of the overall portfolio, rather than on the risk of the specific securities in the portfolio. Clients should be aware that some of those individual assets will entail more risk than the portfolio as a whole.

There are many different types of investment risk. The two general types of risk are:

- Losing money, which you can identify as investment risk.
- Losing buying power, which is inflation risk.

Investors face many different forms of risk depending on the kinds of investments they choose. Most investment risk is described as either systematic or nonsystematic. While those terms seem intimidating, what they refer to is actually straightforward.

**Systematic risk:** is also known as market risk and relates to factors that affect the overall economy or securities markets. Systematic risk affects all companies, regardless of the company's financial condition, management, or capital structure, and, depending on the investment, can involve international as well as domestic factors. Stocks tend to fluctuate more than other asset classes such as bonds and may pose more risk over short periods of time.

**Nonsystematic risk:** in contrast to systematic risk, affects a much smaller number of companies or investments and is associated with investing in a particular product, company, or industry sector. One way to manage nonsystematic risk is to spread your investment dollars around, diversifying your portfolio holdings within each major asset class—stock, bonds, and cash—either by owning individual securities or mutual funds that invest in those securities. While you're likely to feel the impact of a company that crashes and burns, it should be much less traumatic if that company's stock is just one among several you own.

**Credit risk:** This is the risk of a bond issuer not being able to make timely payments of principal and interest. The value of a bond may also decrease due to financial difficulties or the declining creditworthiness of the issuer.

**Interest-rate risk:** All bonds tend to rise in value when interest rates fall and to fall in value when interest rates rise. Typically, there is greater price volatility associated with bonds with a longer maturity.

**Call/reinvestment risk:** As interest rates fall, bonds with call provisions may be called in by the issuer prior to maturity. This may leave the investor with the problem of reinvesting the principal at a lower interest rate.



**Inflation risk:** This is also known as purchasing power risk. Inflation is a rise in the general level of prices for goods and services. If investments do not keep up with inflation, an investor's money will purchase less in the future than it did in the past.

**Liquidity risk:** Some investments may not be widely held by the public and may be difficult to sell if prices drop dramatically.

**Currency risk:** Currency exchange can affect the returns of a foreign security because foreign exchange rates constantly fluctuate with changes in the supply and demand of each country's currency. Thus, returns achieved by local investors are often quite different from the returns that U.S. investors achieved—even though both are investing in the same security.

**Political/economic risk:** Investments in a foreign country can be affected by the political and economic developments within that country.

**Market-timing risk:** By attempting to time market movements, investors risk being out of the market during the best times and may find themselves jumping into markets during the worst times.

**Asset-Allocation/Optimization/Monte Carlo Simulation Estimation Error Risks:** Quantitative asset allocation tools provide recommendations for optimal diversified portfolio mix as well as estimates of ranges of expected risk and return. Monte Carlo simulations attempt to show the ranges of potential outcomes associated with various retirement investments and planning approaches. Estimates for portfolio risk and return are based on historical market risk and return data or on adjustments to this data involving forecasts about future returns. Past performance is not a guarantee of future return or risk levels. Forecasts about future returns are not dependable. Poorly selected data and assumptions may result in large distortions in recommended asset allocation and in projected estimates for risk and return. Diversification relies on assumptions about correlation patterns between asset classes, e.g. stocks, bonds, foreign real estate, commodities, etc. These correlations change over time and will affect portfolio risk and volatility compared to historical data.

### ***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.

## ***Brochure Supplements – Investment Adviser Representatives***

Bruce P. Thompson, President and Founder  
Brochure Supplement

Name of Supervised Person/IA Rep	Bruce Thompson
Address	18 Hunters 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 Richarddt, CFP® -- Certified Financial Planner, Vice President Financial Planning  
Brochure Supplement

Name of Supervised Person/IA Rep	Andy Richarddt
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 Richarddt does not have any disciplinary disclosure items.

***Other business activities*** – Andrew Richarddt 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. Andrew Richarddt does not have any sources of additional investment business related compensation.

***Supervision*** – Mr. Richarddt 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.

Chri Sadkowski, CFP® -- Certified Financial Planner  
Brochure Supplement

Name of Supervised Person/IA Rep	Chris Sadkowski
Address	33 Bartlett St. Beverly, MA 01915
Phone Number	(978) 927-0408
Date of Last Revision	03/31/2011

Education

University of Pennsylvania, B.A. Economics	1973
Maxwell School, Syracuse University, M.P.A.	1974
College for Financial Planning, Denver CO, January	1999
Certified Financial Planner® Professional	2003

Experience

Barker Financial Group, Wealth Manager/Financial Planner	2006-2011
Christopher Financial Advisors, President	1997-2006
U.S. Department of Housing and Urban Development, Management and Organizational Development Specialist	1978-2006

***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. Chris Sadkowski does not have any disciplinary disclosure items.

***Other business activities*** – Chris Sadkowski 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. Chris Sadkowski does not have any sources of additional investment business related compensation.

***Supervision*** – Mr. Sadkowski 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.