

FORM ADV PART 2

Firm name: Watershed Investment Consultants, Inc.
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Material changes: Watershed's most recent review to Part 2 of Form ADV was conducted in March 2010. Watershed's business activities have not changed materially since the time of that review. However, in 2010 the SEC required significant changes to the content and format of Part 2 of Form ADV. This brochure, which reflects those changes, is materially different from brochures used by Watershed in prior years.

This brochure provides information about the qualifications and business practices of Watershed Investment Consultants, Inc. If you have any questions about the contents of this brochure, please contact us at (303) 738-0300. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Watershed Investment Consultants, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

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Watershed Investment Consultants, Inc.

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Advisory Business

Watershed Investment Consultants, Inc. (hereinafter referred to as “Watershed”) was founded in January 1998. Watershed provides non-discretionary investment consulting services primarily to institutional investors, including pension plans, foundations, endowments and health care organizations.

Watershed’s principal owners are Dale A. Connors and Kevin G. Yoshida. Mr. Connors and Mr. Yoshida each own 50% of Watershed.

Watershed's goal is to help clients make an informed decision on their investment program. Watershed’s advisory services broadly fall into four categories:

- 1) Determining investment objectives: All clients are uniquely defined by their organizational and investment circumstances. Watershed works closely with each client to understand their specific needs and constraints to formulate clearly defined investment objectives for their investment program.
- 2) Asset allocation analysis: Once the investment objectives are clearly defined, Watershed will analyze the risk and return parameters of potential asset allocation strategies that may be used to meet the investment objectives.
- 3) Manager research: Watershed will analyze potential investment managers and strategies that may be used to implement the asset allocation strategy. In this analysis, Watershed will evaluate the qualifications of the organization, the discipline, consistency, quality and repeatability of the investment strategy, the investment performance of the strategy and the reasonableness of fees and fund terms.
- 4) Monitor: Watershed will evaluate the investment program on an ongoing basis to monitor its progress towards meeting its investment objectives.

In addition, Watershed will assist the client in documenting the details of the investment program in an Investment Policy Statement.

All clients are uniquely defined by their organizational and investment circumstances. Watershed works closely with each client to understand their specific needs and constraints, and will make recommendations that are specifically tailored for their investment program. Areas that are unique characteristics of each client include, for example: return objectives, liquidity needs, cash flow demands, spending policies, liability composition, statutory restrictions, capital requirements, entity-wide balance sheet or income statement structure, socially responsible investment screens - just to name a few.

Watershed does not provide investment consulting services on a discretionary basis.

As of December 31, 2010, the assets of Watershed’s non-discretionary retainer clients were \$3,343,974,287.

Fees and Compensation

Watershed is compensated on a fixed dollar fee basis. Watershed does not have a standard fee schedule; fees are negotiated individually with each client based on the complexity of their circumstances and consulting needs.

Watershed's clients are sent an invoice, and clients submit a check to Watershed for payment of our advisory services. Watershed has no other method of billing available. Invoices for retainer relationships are sent on a calendar quarterly basis in arrears, while invoices for one-time projects are sent after completion.

Watershed's clients do not pay any other fees to Watershed other than the agreed-upon fixed dollar fee. These fixed dollar fees are Watershed's sole source of revenue.

Watershed's fees are charged in arrears only, and therefore clients do not pay fees in advance.

Neither Watershed nor any employee of Watershed receives compensation for the sale of securities or other investment products.

Performance-Based Fees and Side-By-Side Management

Not applicable. Watershed does not offer a performance-based fee schedule.

Types of Clients

Watershed provides non-discretionary investment consulting services primarily to institutional investors, including pension plans, foundations, endowments and health care organizations. Watershed does not provide investment consulting services to individuals. Watershed does not have any stated requirements for opening or maintaining a consulting relationship with Watershed.

Methods of Analysis, Investment Strategies and Risk of Loss

Watershed's clients are generally knowledgeable, institutional investors with a long-term time horizon. While each Watershed client has unique circumstances – and therefore a unique investment program tailored to their specific needs – most clients invest across a wide range of asset classes. In recommending an asset class and/or an asset allocation strategy, Watershed will consider a broad set of variables, including, for example: volatility, size of potential gains/losses, diversification potential, behavior in various economic environments, liquidity, and valuations.

In the investment manager research evaluation process, Watershed analyzes the investment manager's overall business objectives, any past or anticipated changes in organizational structure, the experience and depth of investment staff, any turnover in investment personnel or senior management, succession plans, compensation schemes, institutional client experience and client turnover/stability. We evaluate the discipline, consistency, quality and repeatability of the firm's investment philosophy and process by analyzing the firm's research effort, decision-making structure, targeted portfolio characteristics, security selection techniques, portfolio construction methodologies, and benchmark sensitivity. We confirm the manager's stated investment style through a detailed analysis of the portfolio's fundamental characteristics based on underlying securities and through returns-based style analysis. Historic performance records that are not audited, contain simulated data, include returns from prior organizations, or have a high level of dispersion across accounts are critically examined. Finally, fees and fund terms should be reasonable relative to other similar institutionally-oriented products.

Across all asset classes and investment manager strategies selected by Watershed's clients, clients face the risk of loss and should be prepared for this risk. Watershed seeks to mitigate the impact of losses by recommending an investment program that is diversified across asset classes and investment manager strategies, as well as by recommending an asset allocation strategy that is appropriate for the client's investment objectives.

All asset classes – equity, debt and real assets (such as real estate or natural resources) – are subject to broad market risks. These risks are influenced by broad market forces – for example, the direction and level of economic activity, or changes in the level of interest rates. Other factors – such as valuations or liquidity – ebb and flow over time, and may also pose material risks to the performance on an asset class. Further, investment managers that actively manage portfolio strategies may, through their active decision-making process, make portfolio decisions that cause the portfolio's returns to be below their designated performance benchmark. In addition, active investment managers may utilize investment techniques – for example, leverage, short-selling, or derivatives – to implement their investment strategy; these strategies may have the impact of creating more risk compared to a strategy that did not utilize these techniques.

Watershed does not recommend individual securities. Rather, Watershed recommends broad asset classes and investment managers that are retained to implement asset class exposures.

Disciplinary Information

Neither Watershed nor a management person has been involved in a legal or disciplinary event that is material to a client's or prospective client's evaluation of Watershed's investment consulting business or the integrity of its management.

Other Financial Industry Activities and Affiliations

Watershed's sole business is to provide non-discretionary investment consulting services. Neither Watershed nor any of its management persons have any affiliation or business relationship, either financial or otherwise, with any other organization.

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

Watershed maintains a Code of Ethics, which is available upon request. The Code of Ethics has established policies and procedures that seek to ensure that Watershed's client interests are placed above all others and that employees do not take advantage of their position.

Further, Watershed seeks to ensure that employees' personal investing and other actions are in compliance with applicable Federal securities laws. Watershed requires employees to complete quarterly and annual reports regarding transactions and holdings in any Reportable security in which they have beneficial ownership. These reports are reviewed by Watershed's Chief Compliance Officer.

Watershed will provide a copy of our code of ethics to any client or prospective client upon request.

Watershed does not recommend to clients, or buys or sells for client accounts, individual securities. Rather, Watershed recommends, on a non-discretionary basis, broad asset classes and investment managers that are retained to implement asset class exposures.

Brokerage Practices

Not applicable. As a non-discretionary investment consultant, Watershed does not trade any client accounts, nor does it have any authority to trade any client account.

Review of Accounts

A senior staff member assigned as the primary client consultant contact will review client accounts. Watershed's client consultants are: Dale Connors, CFA, Managing Director; Paul Schreder, CFA, Senior Consultant; and Kevin Yoshida, CFA, Managing Director.

For each client, Watershed generates a monthly summary written report on the asset allocation and investment performance of the investment program. On a quarterly basis, Watershed generates a detailed written report on the asset allocation, investment performance, and portfolio characteristics of the investment program. All clients receive this quarterly detailed written report. As part of the review, the client consultant will review the investment program's actual asset allocation relative to its investment guidelines, the investment performance relative to benchmarks and peers, and the consistency of investment managers' portfolio characteristics relative to their stated investment strategy. In addition, Watershed will generate a written report that reviews the portfolio's asset allocation strategy, the frequency of which is driven by each client's needs and circumstances, and any material changes in those needs and circumstances.

Client Referrals and Other Compensation

Not applicable. Watershed does not have any arrangements with any person or organization to provide an economic benefit to Watershed or its employees. Further, Watershed does not have any referral arrangements with any person or organization.

Custody

Not applicable. Watershed does not maintain custody of client funds or securities. Watershed's clients receive account statements directly from their custodian or fund administrator.

Investment Discretion

Not applicable. Watershed does not have or accept discretionary authority to manage securities accounts on behalf of clients.

Voting Client Securities

Not applicable. Watershed does not have or accept authority to vote client securities. Clients will receive proxies or other solicitations directly from their custodian or transfer agent. If clients have questions about a particular solicitation, they may contact the relevant investment manager or mutual fund.

Financial Information

Watershed has not been the subject of a bankruptcy petition at any time and is not aware of any financial condition that is expected to affect its ability to provide investment consulting services.