

# **ECM Investment Management, Inc.**

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## **Form ADV, Part 2A Brochure**

March 17, 2011

This brochure provides information about the qualifications and business practices of ECM Investment Management, Inc. If you have any questions about the contents of this brochure, please contact us at 949.759.9684 or [clientservices@ecmadvisors.com](mailto:clientservices@ecmadvisors.com). 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.

Any reference to or use of the terms “registered investment adviser” or “registered,” does not imply that ECM Investment Management, Inc. or any person associated with ECM Investment Management, Inc. has achieved a certain level of skill or training.

Additional information about ECM Investment Management, Inc. is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2 - MATERIAL CHANGES

**Revised March 17, 2011**

The purpose of this page is to inform you of any material changes since the previous version of this brochure. If you are receiving this brochure for the first time this section may not be relevant to you.

This brochure is a new document prepared according to the SEC's new requirements and rules. Therefore, this document is materially different in structure and requires certain new information that our previous brochure did not require. In the future, this item will discuss only specific material changes that we make to the brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

ECM Investment Management, Inc. reviews and updates our brochure at least annually to make sure that it is still current.

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## ITEM 4 - ADVISORY BUSINESS

### Description of Advisory Firm

ECM Investment Management, Inc. (“ECM,” “we,” “our” or “us”) is a privately owned corporation headquartered in Newport Beach, California. ECM is registered as an investment adviser with the U.S. Securities and Exchange Commission. Lester W. Engebretson founded ECM Investment Management, Inc. in 1970. He serves as President, CEO and CFO.

### Advisory Services Offered

ECM is a research-oriented investment counsel firm, providing professional investment management services to clients on a discretionary basis. We are dedicated solely to investment management and securities analysis. We work with clients to determine an investment strategy appropriate for the client, and then implement and monitor the securities in the client’s portfolio to ensure that they continue to meet our investment criteria.

ECM’s recommendations for new investments will primarily include individual stocks and bonds, US Treasuries, mutual funds, and ETFs. We may also occasionally offer advice regarding additional types of investments if they are appropriate to address the individual needs, goals, and objectives of the client or in response to client inquiry. ECM may offer investment advice on any investment held by the client at the start of the advisory relationship.

We discuss our discretionary authority below under **Item 16 - Investment Discretion**. For more information about the restrictions clients can put on their accounts, see **Tailored Services and Client Imposed Restrictions** in this Item below.

We describe the Fees charged for investment management services below under **Item 5 - Fees and Compensation**.

### Limitations on Investments

In the event ECM is managing assets within a retirement plan such as 401(k), 403(b), or other employer plan, ECM is limited to those investment providers and investment options chosen by the plan administrator. Similarly, when we provide services to participants in an employer-sponsored plan, the participant may be limited to investing in securities included in the plan’s investment options. Therefore, ECM can only make recommendations to the client from among the available options, and will not recommend or invest the client’s account in other securities, even if there may be better options elsewhere.

### Tailored Services and Client Imposed Restrictions

ECM manages client accounts based on the investment strategy the client chooses, as discussed below under **Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss**. ECM applies the strategy for each client, based on the client’s individual circumstances and financial situation. We make

investment decisions for clients based on information the client supplies about their financial situation, goals, and risk tolerance. Our recommendations may be limited if the client does not provide us with accurate and complete information. It is the client's responsibility to keep ECM informed of any changes to their investment objectives or restrictions.

Clients may also request other restrictions on the account, such as when a client needs to keep a minimum level of cash in the account or does not want ECM to buy or sell certain specific securities or security types in the account. ECM reserves the right to not accept and/or terminate management of a client's account if we feel that the client-imposed restrictions would limit or prevent us from meeting or maintaining the client's investment strategy.

## **Wrap Fee Programs**

ECM does not manage accounts as part of a wrap or bundled fee program.

## **Assets Under Management**

ECM manages client assets in discretionary accounts on a continuous and regular basis. As of 12/31/2010, the total amount of assets under our management was \$45,915,454. We did not manage any accounts on a non-discretionary basis.

## **ITEM 5 - FEES AND COMPENSATION**

### **Fee Schedule**

ECM charges advisory fees for investment management services. ECM's advisory fees are charged based on a percentage of the market value of the portfolio, per the following basic schedule:

<u>Assets Under Management</u>	<u>Annual Fee</u>
Initial \$1,000,000	1.375%
Amount over \$1,000,000	1.00%

ECM will negotiate fees on occasion on a case-by-case basis. We may also manage certain internal accounts for a reduced fee.

ECM's advisory fees are payable quarterly in advance at the beginning of each calendar quarter. We calculate quarterly fees using the account market value on the last day of the prior quarter, multiplied by one fourth of the annual fee.

Fees for partial quarters will be pro-rated based on the number of days remaining in the quarter and the initial value of the portfolio.

With client authorization, ECM will direct the client's custodian to withdraw our advisory fee from the client's account on a quarterly basis. All clients will receive account statements from the custodian at

least quarterly. The custodian statement will show the deduction of the advisory fee. Beginning July 1, 2011, ECM will send a statement to each client who authorizes ECM to withdraw fees directly from the custodian. The statement will show the amount of the fee, the value of the client's assets upon which we based the fee, and the specific manner in which we calculated the fee. 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.

## **Other Fees and Expenses**

ECM's fees do not include custodian fees. Clients pay all brokerage commissions, stock transfer fees, and/or other similar charges incurred in connection with transactions in accounts from the assets in the account. These charges are in addition to the fees the client pays to ECM. See **Item 12 – Brokerage Practices** below for more information.

In addition, any mutual fund shares held in a client's account may be subject to deferred sales charges, 12b-1 fees, and other fund-related expenses. The fund's prospectus fully describes the fees and expenses. All fees paid to ECM for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds. Mutual funds pay advisory fees to their managers, which are indirectly charged to all holders of the mutual fund shares. Consequently, clients with mutual funds in their portfolios are effectively paying both ECM and the mutual fund manager for the management of their assets.

ECM does not accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

## **Termination**

Either party may terminate the agreement upon thirty (30) days' written notice to the other party. The client may terminate the agreement in writing, mailed to ECM's office address.

Upon notice of termination, ECM will calculate the final fees due for services provided through the date of termination. If you paid fees in advance that were more than the amount due for services, ECM will refund any unearned fees to you. We will prorate the refund based on the effective termination date.

## **ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

ECM does not charge performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a client.

## **ITEM 7 - TYPES OF CLIENTS**

ECM offers discretionary advisory services to individuals, high net worth individuals, trusts and estates, and individual participants of retirement plans. In addition, we offer advisory services to pension and profit sharing plans and businesses.

## Account Requirements

Generally, ECM requires clients have a minimum account size of \$300,000 to open an account. ECM may reduce or waive the account minimum requirements on a case-by-case basis.

## ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### Methods of Analysis and Investment Strategies

ECM searches for undiscovered values in companies we expect to achieve above average earnings growth not yet recognized by the market. Our investment decisions are made within the context of the overall outlook for the economy, the stock or bond market, and individual industries. Often, we seek opportunities through a change in the “investment theme” of the market. We continuously search for emerging changes in an effort to detect early positive or negative influences on stock prices. Asset allocation between stocks, bonds, or cash-equivalents is determined by our analysis of major trends in the financial markets, as well as the objectives of the individual portfolio.

We make investment decisions only after we are convinced that our investment criteria are fully researched. We believe that in-depth research helps minimize risk and increases the possibility of investment success.

### ECM Portfolio Strategies

#### *Equity Growth Objective*

For clients seeking capital appreciation, the Equity Growth strategy seeks quality companies that are experiencing above-average earnings growth. Our Equity Growth accounts typically hold twenty to thirty carefully selected investment positions we believe offer exceptional growth potential without unusually high risk. We attempt to mitigate risk by selecting established, quality companies available at valuations we believe are attractive. We continuously monitor our investment positions to detect any fundamental or technical changes, and take decisive action as we work to protect principal. During extended periods of expected market weakness, we strive to hold substantial cash or cash-equivalent positions; and when conditions dictate, we have invested in no-load, short-term bond mutual funds and ETFs in an effort to maximize returns for medium-term market volatility. This is true even in our Equity accounts, which typically are invested primarily in stocks.

#### *Focus Growth Equity Objective*

For those clients seeking a more aggressive trading approach to investing in equities, ECM has what we call our Focus Growth equity objective. Within this strategy, we seek the same parameters of timely selection of quality companies that are experiencing above-average earnings growth, in a more concentrated portfolio that attempts to take advantage of the shorter-term movements in the individual stocks and ETFs. These accounts typically hold twenty select equity investment positions that we believe offer exceptional growth potential and can take advantage of shorter-term market movements.



Clients should consider the risk that a very concentrated portfolio with limited diversification increases the possibility of substantial losses and depreciation of the portfolio. If the investments within the portfolio do not perform as expected, the security's increased weight in the account will have a larger negative effect on a concentrated portfolio than in a broadly diversified portfolio. Conversely, if the concentrated investments do better than expected, the account will have a larger positive effect than a broadly diversified portfolio.

### *Balanced Value Account Objective*

When a client desires modest capital appreciation with higher current income, ECM invests in a combination of equities and income-producing instruments such as corporate bonds, government bonds and notes, bond mutual funds, fixed-income ETFs, and money market funds.

Historically, accounts in the Balanced Value Account objective have often been invested in approximately 60% equities and 30% fixed income instruments. Investments in equities carry a higher risk of short-term volatility, but also provide the potential for greater returns than fixed income investments. Clients in the Balanced Value Account objective typically have an account value over \$1,000,000.

### *Growth and Income Objective*

For clients seeking modest capital appreciation with higher current income in accounts with values less than \$1,000,000, ECM offers the Growth and Income objective. Using the same methodology as our Balanced Value Accounts, the Growth and Income accounts invest in securities that have lower investment thresholds, which are more appropriate for smaller accounts.

### *Methods of Analysis for Selecting Securities*

ECM uses a top-down investment selection process. We assess the overall economic environment, and from there determine our view of the potential for individual industries and securities. We seek to identify those industries and corporations that we expect to provide above-average earnings growth. We use fundamental analysis in choosing investments for our portfolio strategies, analyzing financial statements, the general financial health of companies, and /or the analysis of management or competitive advantages. Our equity investments focus typically on large-cap stocks. In evaluating bonds, ECM relies on credit rating agencies to help determine the financial strength of issuing creditors. We may also use prospectuses and other relevant information from bond underwriters to help in analysis and selection of fixed income securities.

### *Investment Strategies for Managing Portfolios*

ECM believes there are periods of time not to be fully invested in equities. We do not believe in a "buy and hold" strategy during anticipated extended periods of market decline. We strive to utilize defensive strategies such as high cash balances in an effort to protect assets during adverse times. In lieu of cash, we may use short-term bond mutual funds or bond ETFs in an effort to get higher returns in the short term. While high cash levels can help protect a client's assets during periods of market decline, there is always a risk that equities may return toward a more positive direction, thus possibly missing an opportunity to participate in the potential gain from a rise in the stock market.

Security selection and timing are among ECM's core beliefs. We believe that strategy, in conjunction with sound fundamental research, is essential. We apply proprietary technical and analytical measures to determine when and at what price level securities should be purchased. Investments are made when we feel that all fundamental criteria for selection have been met and we have determined the appropriate time and price to purchase each security based upon technical analysis. The risk to our strategy is primarily the risk that we will purchase a security or sell a security at an inopportune time.

## **General Risk of Loss Statement**

Investing in securities always involves the risk that you will lose money. Before investing in the securities markets, clients should be prepared to bear that risk. Over time, a client's account value will fluctuate. At any time, your assets may be worth more or less than the amount you invested. As with any investment strategy, there is no guarantee that our strategies will be successful. ECM makes no guarantees or promises that our market analysis will be accurate or the investment strategies we use will be successful.

## **Specific Security Risks**

### *General Risks of Owning Securities*

The prices of securities held in client accounts and the income they generate may decline in response to certain events taking place around the world. These include events directly involving the issuers of securities held as underlying assets of mutual funds in a client's account, conditions affecting the general economy, and overall market changes. Other contributing factors include local, regional, or global political, social, or economic instability and governmental or governmental agency responses to economic conditions. Finally, currency, interest rate, and commodity price fluctuations may also affect security prices and income.

### *Equity Securities*

Equity securities represent an ownership position in a company. Equity securities typically consist of common stocks. The prices of stocks and the income they generate (such as dividends) fluctuate based on, among other things, events specific to the company that issued the shares, conditions affecting the general economy and overall market changes, changes or weakness in the business sector the company does business in, and other factors. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of equity securities.

### *Debt Securities (Bonds)*

Issuers use debt securities to borrow money. Generally, issuers pay investors periodic interest and repay the amount borrowed either periodically during the life of the security and/or at maturity. Alternatively, investors can purchase other debt securities, such as zero coupon bonds, which do not pay current interest, but rather are priced at a discount from their face values and their values accrete over time to face value at maturity. The market prices of debt securities fluctuate depending on such factors as interest rates, credit quality, and maturity. In general, market prices of debt securities decline when

interest rates rise and increase when interest rates fall. The longer the time to a bond's maturity, the greater its interest rate risk.

Certain additional risk factors relating to debt securities include:

#### *Reinvestment Risk*

When interest rates are declining, investors have to reinvest their interest income and any return of principal, whether scheduled or unscheduled, at lower prevailing rates.

#### *Inflation Risk*

Inflation causes tomorrow's dollar to be worth less than today's; in other words, it reduces the purchasing power of a bond investor's future interest payments and principal, collectively known as "cash flows." Inflation also leads to higher interest rates, which in turn leads to lower bond prices.

#### *Interest Rate and Market Risk*

Debt securities may be sensitive to economic changes, political and corporate developments, and interest rate changes. Investors can also expect periods of economic change and uncertainty, which can result in increased volatility of market prices and yields of certain debt securities. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices.

#### *Call Risk*

Debt securities may contain redemption or call provisions entitling their issuers to redeem them at a specified price on a date prior to maturity. If an issuer exercises these provisions in a lower interest rate market, the account would have to replace the security with a lower yielding security, resulting in decreased income to investors.

Usually, a bond is called at or close to par value. This subjects investors that paid a premium for their bond to a risk of lost principal. In reality, prices of callable bonds are unlikely to move much above the call price if lower interest rates make the bond likely to be called.

#### *Credit Risk*

If the issuer of a debt security defaults on its obligations to pay interest or principal or is the subject of bankruptcy proceedings, the account may incur losses or expenses in seeking recovery of amounts owed to it.

#### *Liquidity and Valuation Risk*

There may be little trading in the secondary market for particular debt securities, which may affect adversely the account's ability to value accurately or dispose of such debt securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of debt securities.

It may be possible to reduce the risks described above through diversification of the client's portfolio and by credit analysis of each issuer, as well as by monitoring broad economic trends and corporate and

legislative developments, but there can be no assurance that we will be successful in doing so. Credit ratings for debt securities provided by rating agencies reflect an evaluation of the safety of principal and interest payments, not market value risk. The rating of an issuer is a rating agency's view of past and future potential developments related to the issuer and may not necessarily reflect actual outcomes. There can be a lag between the time of developments relating to an issuer and the time a rating is assigned and updated.

### U.S. Treasury Securities

U.S. Treasury securities include direct obligations of the U.S. Treasury, such as Treasury bills, notes, and bonds. For these securities, the U.S. government unconditionally guarantees the payment of principal and interest, resulting in the highest possible credit quality. Fluctuations in interest rates subject U.S. Treasury securities to variations in market value. However, they are paid in full when held to maturity.

### Mutual Funds (Open-end Investment Company)

A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The portfolio of the fund consists of the combined holdings it owns. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate. The price that investors pay for mutual fund shares is the fund's per share net asset value (NAV) plus any shareholder fees that the fund imposes at the time of purchase (such as sales loads).

Mutual funds have benefits such as professional management, diversification, affordability, and liquidity. However, they also have features that some investors might view as disadvantages:

#### Costs Despite Negative Returns

Investors must pay sales charges, annual fees, and other expenses regardless of how the fund performs. Depending on the timing of their investment, investors may also have to pay taxes on any capital gains distribution they receive. This includes instances where the fund went on to perform poorly after purchasing shares.

#### Lack of Control

Investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.

#### Price Uncertainty

With an individual stock, investors can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling a broker or your investment adviser. Investors can also monitor how a stock's price changes from hour to hour—or even second to second. By contrast, with a mutual fund, the price at which an investor purchases or redeems shares will typically depend on the fund's NAV, which the fund might not calculate until many hours after the investor placed the order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

## *Different Types of Funds*

When it comes to investing in mutual funds, investors have literally thousands of choices. Each type of fund has different features and different risks and rewards. Generally, the higher the potential return, the higher the risk of loss.

### *Money Market Funds*

Money market funds have relatively low risks, compared to other mutual funds (and most other investments). By law, they can invest in only certain high quality, short-term investments issued by the U.S. Government, U.S. corporations, and state and local governments. Money market funds try to keep their net asset value (NAV), which represents the value of one share in a fund, at a stable \$1.00 per share. However, the NAV may fall below \$1.00 if the fund's investments perform poorly. Investor losses have been rare, but they are possible. Money market funds pay dividends that generally reflect short-term interest rates, and historically the returns for money market funds have been lower than for either bond or stock funds. That is why "inflation risk," the risk that inflation will outpace and erode investment returns over time, can be a potential concern for investors in money market funds.

### *Bond Funds*

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields. Unlike money market funds, the SEC's rules do not restrict bond funds to high quality or short-term investments. Because there are many different types of bonds, bond funds can vary dramatically in their risks and rewards.

Some of the risks associated with bond funds include:

#### *Credit Risk*

There is a possibility that companies or other issuers may fail to pay their debts (including the debt owed to holders of their bonds). Consequently, this affects mutual funds that hold these bonds. Credit risk is less of a factor for bond funds that invest in insured bonds or U.S. Treasury Bonds. By contrast, those that invest in the bonds of companies with poor credit ratings generally will be subject to higher risk.

#### *Interest Rate Risk*

There is a risk that the market value of the bonds will go down when interest rates go up. Because of this, investors can lose money in any bond fund, including those that invest only in insured bonds or U.S. Treasury Bonds. Funds that invest in longer-term bonds tend to have higher interest rate risk.

#### *Prepayment Risk*

Issuers may choose to pay off debt earlier than the stated maturity date on a bond. For example, if interest rates fall, a bond issuer may decide to "retire its debt and issue new bonds that pay a lower rate. When this happens, the fund may not be able to reinvest the proceeds in an investment with as high a return or yield.

### *Tax Consequences of Mutual Funds*

When investors buy and hold an individual stock or bond, the investor must pay income tax each year on the dividends or interest the investor receives. However, the investor will not have to pay any capital

gains tax until the investor actually sells and makes a profit. Mutual funds are different. When an investor buys and holds mutual fund shares, the investor will owe income tax on any ordinary dividends in the year the investor receives or reinvests them. Moreover, in addition to owing taxes on any personal capital gains when the investor sells shares, the investor may have to pay taxes each year on the fund's capital gains. That is because the law requires mutual funds to distribute capital gains to shareholders if they sell securities for a profit, and cannot use losses to offset these gains.

### Exchange-Traded Funds (ETFs)

An ETF is a type of Investment Company (usually, an open-end fund or unit investment trust) whose primary objective is to achieve the same return as a particular market index. An ETF is similar to an index fund in that it will primarily invest in securities of companies that are included in a selected market index. Unlike traditional mutual funds, which can only be redeemed at the end of a trading day, ETFs trade throughout the day on an exchange. Like stock mutual funds, the prices of the underlying securities and the overall market may affect ETF prices. Similarly, factors affecting a particular industry segment may affect ETF prices that track that particular sector.

### Cash and Cash Equivalents

Cash and cash equivalents are the most liquid of investments. Cash and cash equivalents are considered very low-risk investments meaning, there is little risk of losing the principal investment. Typically, low risk also means low return and the interest an investor can earn on this type of investment is low relative to other types of investing vehicles.

## **ITEM 9 - DISCIPLINARY INFORMATION**

Under this Item, ECM is required to disclose whether there are any legal or disciplinary events that are material to a client's evaluation of our advisory business or the integrity of our management. If there were a number of specific legal and disciplinary events we must provide information for this Item. If our advisory firm or a management person has been involved in one of these events within the past ten years, we must disclose it under this Item for ten years following the date of the event. ECM does not have any required disclosures to this Item.

## **ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Lester Engebretson, President, CEO, and Portfolio Manager at ECM, Joseph Bronson, Portfolio Manager at ECM, and John Engebretson, Operations Manager at ECM, are co-owners of Strong Investment Management, LLC ("Strong"). Strong is an SEC registered investment adviser that shares the same principal place of business as ECM. Lester Engebretson is a minority member and Portfolio Manager of Strong, but does not control the firm. Strong utilizes the same investment process as ECM, and the Portfolio Managers of ECM are also Portfolio Managers of Strong. Because our research and investment management activities overlap between the firms, there are efficiencies in managing the two firms and our personnel devote time as needed to the clients of each firm. Joseph Bronson, John Engebretson, and Lester Engebretson devote approximately half of their time to ECM, and half of their time to Strong.

## ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

### Code of Ethics

ECM believes that we owe clients the highest level of trust and fair dealing. As part of our fiduciary duty, we place the interests of our clients ahead of the interests of the firm and our personnel. We have adopted a Code of Ethics that emphasizes the high standards of conduct that ECM seeks to observe. ECM's personnel are required to conduct themselves with integrity at all times and follow the principles and policies detailed in our Code of Ethics.

ECM's Code of Ethics attempts to address specific conflicts of interest that either we have identified or that could likely arise. ECM's personnel are required to follow clear guidelines from the Code of Ethics in areas such as gifts and entertainment, other business activities, and adherence to applicable federal securities laws.

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

### Personal Trading Practices

Individuals who make securities recommendations to clients, or who have access to nonpublic information regarding any clients' purchase or sale of securities, are subject to personal trading policies governed by the Code of Ethics. ECM or our personnel may trade in securities for our own accounts. The securities we trade in may be the same securities we recommend to clients, or they may be securities that do not meet the criteria of our investment process or we do not feel are appropriate for clients. Generally, investments in our personal accounts are more aggressive and have higher turnover than client accounts.

Trading in the same securities as clients presents a potential conflict of interest as we may have an incentive to take investment opportunities from clients for our own benefit, favor our personal accounts over client accounts when allocating trades, or to use the information about the transactions we intend to make for clients to our personal benefit by trading ahead of clients.

Our policies to address these conflicts include the following:

1. As a general rule, ECM makes investments for our clients in large cap stocks and fixed income instruments. Due to the market capitalization of the companies ECM invests in and the volume of trading in their stock, it is unlikely that any transactions by ECM could, in and of themselves, influence the market. Thus, we do not prohibit personal trading in the same securities we are trading for a client.
2. ECM prohibits trading in a manner that takes personal advantage of price movements caused by client transactions. When an employee account trades in the same security as clients, we review

that the client receives an equal or better price than the employee within the same account objective.

3. Employees may block personal trades with client trades when possible (see ***Aggregation with Client Orders*** in this Item, below).
4. ECM requires our personnel to report personal securities transactions on a quarterly basis. Our Chief Compliance Officer will review employee transactions to assure compliance with our policies.
5. Conflicts of interest also may arise when ECM personnel have access to Limited Offerings or IPOs, including private placements or public or private offerings of interests in limited partnerships or any thinly traded securities, as a result of their position with ECM. Given the inherent potential for conflict, Limited Offerings and IPOs demand extra care. ECM personnel are required to obtain pre-approval from our Chief Compliance Officer before trading in these types of securities.
6. Because these policies are intended to protect the interests of clients, we may make exceptions where we feel clients would not be harmed.

#### *Aggregation with Client Orders*

ECM may aggregate orders for clients in the same securities in an effort to seek best execution, negotiate more favorable commission rates, and/or allocate differences in prices, commissions, and other transaction costs equitably among our clients. These are benefits of aggregating orders that we might not obtain if we placed those orders independently.

ECM may aggregate trades in like securities among client accounts as well as with accounts of ECM and our personnel, if we follow the policies described below. This presents a potential conflict of interest as we may have an incentive to allocate more favorable executions to our own accounts or the accounts of our personnel.

Our practices to address this conflict are as follows:

1. We disclose our aggregation policies in this brochure;
2. We do not aggregate transactions unless we believe that aggregation is consistent with our duty to seek best execution (which includes the duty to seek best price) for our clients. The trade also needs to be consistent with the terms of our investment advisory agreement with each client that has an account included in the aggregation;
3. We do not favor any account over any other account. This includes accounts of ECM or any of our personnel. Each account in the aggregated order will participate at the average share price



for all of our transactions in a given security on a given business day (per custodian). All accounts will pay their individual transaction costs;

4. If the aggregated order is filled entirely, we will allocate shares among clients according to a computer-generated pre-allocation; if the order is partially filled, we will allocate it pro-rata according to the same pre-allocation.
5. However, we may allocate the order differently than specified in the pre-allocation if all client accounts receive fair and equitable treatment. (See also **Item 12 – Brokerage Practices** below.)
6. Our books and records will separately reflect each aggregated order and the securities held by, bought, and sold for each client account;
7. Funds and securities of clients participating in an aggregated order will be deposited with one or more qualified custodians. Clients' cash and securities will not be held collectively any longer than is necessary to settle the trade on a delivery versus payment basis. Following settlement, cash or securities held collectively for clients will be delivered out to the qualified custodian as soon as practical;
8. We do not receive additional compensation or remuneration of any kind as a result of aggregating orders; and
9. We provide individual investment advice and treatment to each client's account.

## **ITEM 12 - BROKERAGE PRACTICES**

Clients open one or more accounts in their own account name at an independent qualified custodian (generally a broker-dealer, bank, trust company, or other financial institution). For clients in need of custodial services, ECM typically recommends the use of TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade") or Union Bank of California ("Union Bank"). No client is under any obligation to custody their assets with any bank or broker-dealer that we recommend. All clients are free to select any custodian of their choice. It is important for clients to consider and compare the significant differences between broker-dealers, banks or other custodians prior to opening an account. Some of these differences include total account costs, ease of trading, transaction fees/commission rates, and security and technology services. The client will enter into a separate agreement with the broker-dealer/custodian to custody the assets. ECM is independently owned and operated and not affiliated with any custodian or broker-dealer.

### **Factors Considered in Selecting Broker-Dealers for Client Transactions**

Some custodians do not charge custody fees for holding a client's account; instead, they are compensated by brokerage fees for trades that are placed or settle into the account. In these cases, ECM will trade through the client's custodian so as to limit additional trading costs charged to the client for trading away from the custodian broker. For example, when clients choose to use TD Ameritrade,

almost all client transactions will be placed through TD Ameritrade as the broker-dealer. For other accounts, ECM has discretion to choose the broker-dealer to place trades for the client

ECM considers several factors in recommending a broker-dealer/custodian to a client. Factors that ECM may consider when recommending a broker-dealer/custodian may include client needs and preferences, services offered by the custodian, execution, pricing and transaction costs, ease of use, reputation and financial strength. ECM may also take into consideration the availability of the products and services the broker-dealer/custodian offers to us.

ECM may receive from particular broker-dealers/custodians, without cost (or at a discount), support services and/or products that benefit ECM but only benefit client accounts indirectly. TD Ameritrade makes available products and services that may be used to service ECM client accounts held in custody at TD Ameritrade.

TD Ameritrade makes available products and services that assist ECM in managing and administering clients' accounts including software and other technology that:

1. Provide access to client account data (such as trade confirmations and account statements);
2. Facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
3. Provide pricing and other client and market data;
4. Facilitate payment of ECM's fees from our clients' accounts; and
5. Assist with back-office functions, recordkeeping, and client reporting.

### *Research and Other Soft Dollar Benefits*

For those clients who choose Union Bank as the custodian, client transactions are typically placed through Crowell, Weedon & Co. ("Crowell, Weedon"). In the past, we have had an arrangement with the institutional trading department of Crowell, Weedon under which we direct a portion of the transactions in client portfolios and personal accounts to their trading desk for execution in payment for research services provided by Crowell, Weedon and certain third parties. These commissions are referred to as "soft dollars." The use of soft dollars has been discontinued as of March 31, 2011.

ECM's use of soft dollars is intended to comply with the requirements of Section 28(e) of the Securities Exchange Act of 1934. Section 28(e) provides a "safe harbor" for investment managers who use commissions or transaction fees paid by their advised accounts to obtain investment research services that provide appropriate assistance to the manager in performing investment decision-making responsibilities. Subject to Section 28(e), ECM may place a trade with a broker that charges a brokerage commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of the value of the brokerage and/or research services provided by the broker.

Historically, we have received services from Bloomberg, a provider of market data and analytical services, Advent, a vendor of investment management software and Briefing.com, a news and market data website, among others which are paid through soft dollar arrangements. Trades credited to our

soft dollar benefits were placed at a higher commission rate than non-soft dollar, or execution-only, trades. ECM believes that the incremental commissions paid are reasonable in relation to the value of the brokerage and research and related services provided. From time to time, we may enter into additional soft dollar arrangements.

### **Aggregation and Allocation of Transactions**

In some cases, ECM will recommend the purchase or sale of the same security for multiple clients at the same time. In those cases, ECM may combine purchase and sale orders for all clients with the same order. We describe our aggregation practices in detail under **Item 11 - Aggregation with Client Orders** above. Generally, all clients who participate in a blocked trade as part of a particular broker group receive the average price within that group. ECM believes that by combining orders in this way it will be advantageous to all participants. However, the average price could be less advantageous to a particular client than if that client had been the only account effecting the transaction or had completed the transaction before the other participants.

## **ITEM 13 - REVIEW OF ACCOUNTS**

ECM's Portfolio Managers monitor the securities in client accounts as part of our ongoing investment process, evaluating the economic environment, outlook for the securities markets, and the merits of the securities in the accounts. We review client accounts monthly. Every month, we send to each client a statement of account that shows account holdings, beginning year value, and year-to-date performance. In addition, each client receives a written or electronic statement from the custodian at least quarterly that includes an accounting of all holdings and transactions in the account for the reporting period. Depending on the custodian, clients may choose to receive their custodial account statements by e-mail or online access, rather than paper.

## **ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION**

If an unaffiliated or an affiliated solicitor introduces a client to ECM, we may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements.

If an unaffiliated solicitor introduces the client to ECM, that solicitor will disclose the nature of the solicitor relationship at the time of the solicitation. In addition, the solicitor will provide each prospective client with a copy of this ADV brochure, and a copy of the written disclosure statement from the solicitor to the client disclosing the terms and conditions of the arrangement between ECM and the solicitor, including the compensation to be received by the solicitor from ECM. Any affiliated solicitor of ECM shall disclose the nature of the relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of this Form ADV Part 2A brochure.

## ITEM 15 - CUSTODY

ECM has limited custody of some of our clients' funds or securities when the clients authorize us to deduct our management fees directly from the client's account. A qualified custodian (generally a broker-dealer, bank, trust company, or other financial institution) holds clients' accounts. Clients will receive statements directly from their qualified custodian at least quarterly. The statements will reflect the client's funds and securities held with the qualified custodian as well as any transactions that occurred in the account, including the deduction of ECM'S fee. Clients should carefully review the account statements they receive from their qualified custodian. When clients receive statements from ECM as well as from the qualified custodian, clients should compare these two reports carefully. Clients with any questions about their statements should contact us at the address or phone number on the cover of this brochure. Clients who do not receive their statement from their qualified custodian at least quarterly should also notify us.

## ITEM 16 - INVESTMENT DISCRETION

ECM has full discretion to decide the specific security to trade, the quantity, and the timing of transactions for client accounts. ECM will not contact clients before placing trades in their account, but accounts held in custody at brokerage firms will receive confirmations directly from the broker for any trades placed. Clients grant us discretionary authority in the contracts they sign with us. Clients also give us trading authority over their accounts when they sign the custodian paperwork.

However, certain client-imposed conditions may limit ECM's discretionary authority, such as where the client prohibits transactions in specific security types. See also ***Tailored Services and Client Imposed Restrictions*** under ***Item 4***, above.

## ITEM 17 - VOTING CLIENT SECURITIES

ECM does not vote client securities. Clients will receive their proxies or other solicitations directly from their custodian or a transfer agent.

## ITEM 18 - FINANCIAL INFORMATION

Registered investment advisers are required in this item to provide clients with certain financial information or disclosures about the firm's financial condition. ECM does not require the prepayment of fee, six months or more in advance, and does not foresee any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.

# **Form ADV, Part 2B Brochure Supplement**

Individuals covered by this Supplement:

**Lester W. Engebretson**  
**Joseph B. Bronson**

**ECM Investment Management, Inc.**

610 Newport Center Drive  
Suite 220  
Newport Beach, CA 92660  
Phone: 949.759.9684  
Toll Free: 866.209.2115

March 17, 2011

This brochure supplement provides information about Lester W. Engebretson and Joseph B. Bronson that supplements the ECM Investment Management, Inc. brochure. You should have already received a copy of that brochure. Please contact us at 949.759.9684 or [clientservices@ecmadvisors.com](mailto:clientservices@ecmadvisors.com) if you did not receive our brochure or if you have any questions about the contents of this supplement.

Additional information about Lester W. Engebretson and Joseph B. Bronson is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

# **Lester W. Engebretson**

## **ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE**

*Born: 1933*

*Education:*

Valley Christian University – Masters & Doctorate Degrees (5 Years)

California State University Long Beach – Bachelors Degree (3 Years)

*Business Background:*

ECM Investment Management, Inc. – Founder, President, and Chief Investment Officer (1970 to present)

Strong Investment Management, Inc. – Portfolio Manager and Member (2009 to present)

## **ITEM 3 - DISCIPLINARY INFORMATION**

During the past 10 years, Lester Engebretson has not been party to a) a criminal or civil action in a domestic, foreign or military court; b) an administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority; or c) a self-regulatory proceeding.

## **ITEM 4 - OTHER BUSINESS ACTIVITIES**

In addition to his role as President of ECM, Lester Engebretson also serves as a portfolio manager and member of Strong Investment Management, a registered investment adviser. He devotes approximately half of his time to ECM, and half of his time to Strong.

## **ITEM 5 - ADDITIONAL COMPENSATION**

Lester Engebretson's primary compensation comes from his regular salary and ownership of ECM. He also receives compensation as a member of Strong Investment Management.

## **ITEM 6 - SUPERVISION**

Lester Engebretson is the President of ECM and supervises all employees.

# Joseph B. Bronson

## ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

*Born:* 1973

*Education:*

Canterbury University – Doctorate Degree in Finance (2001), Masters Degree in Finance (1999), Bachelors Degree in Business Administration (1997)

*Business Background:*

ECM Investment Management, Inc. – Portfolio Manager (2008 to present, 1999 to 2003)

Strong Investment Management, Inc. – President and Chief Investment Officer (2009 to present)

Keller Williams Realty – Realtor (2006 to 2008)

Century 21 Realty – Realtor (2003 to 2006)

## ITEM 3 - DISCIPLINARY INFORMATION

During the past 10 years, Joseph Bronson has not been party to a) a criminal or civil action in a domestic, foreign or military court; b) an administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority; or c) a self-regulatory proceeding.

## ITEM 4 - OTHER BUSINESS ACTIVITIES

In addition to his role as a Portfolio Manager of ECM, Joseph Bronson also serves as President and Chief Investment Officer of Strong Investment Management, a registered investment adviser. He devotes approximately half of his time to ECM, and half of his time to Strong.

## ITEM 5 - ADDITIONAL COMPENSATION

Joseph Bronson receives compensation as a Portfolio Manager of ECM. He also receives compensation from his ownership of Strong Investment Management.

## ITEM 6 - SUPERVISION

Lester Engebretson, ECM's President, is responsible for supervising Joseph Bronson's activities and monitoring the investment advice that he gives for consistency with client objectives and ECM's policies. Lester Engebretson can be reached by calling 949.759.9684.