



**MAKROD INVESTMENT ASSOCIATES, INC.**

## **Firm Brochure**

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This brochure provides information about the qualifications and business practices of Makrod Investment Associates. If you have any questions about the contents of this brochure, please contact us at 973.239.1033 and/or [kodonnell@makrod.com](mailto:kodonnell@makrod.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any other state securities authority.

Additional information about Makrod Investment Associates also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2: Material Changes**

There are no material changes.

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#### **Item 4: Advisory Business**

##### **A. Description of Advisory Business**

Makrod Investment Associates is an investment advisory firm based in Verona, New Jersey. Makrod provides non-discretionary investment advisory services to clients who include high net worth individuals, pension and profit sharing plans, individuals, trusts and charitable organizations. Makrod has been in business since 1974. The company is 50% owned by John T. O'Donnell and 50% owned by Mary C. O'Donnell.

##### **B. Types of Advisory Services Makrod Offers**

Makrod provides investment supervisory services to clients for a percentage of assets under management. Makrod provides recommendations on long term investments in equities as well as on fixed income investments using fundamental analysis and a value based approach. The investments are tailored to the needs of the clients. Generally speaking, Makrod constructs portfolios around three types of instruments: equities, fixed income and cash/money market funds, though it is possible that Makrod will provide advice on other types of instruments, such as limited partnerships, mutual funds, certificates of deposit, etc.

Within equity securities, Makrod primarily favors investments in blue chip listed securities paying dividends using a long term purchase strategy (holding for greater than one year). Makrod also provides advice on fixed income securities, primarily investment grade. Within fixed income, Makrod provides advice on United States government securities (such as U.S. Treasuries), municipals bonds and corporate bonds.

Makrod recommends an investment strategy rather than a trading strategy: equity investments are intended as long term purchases (the securities should be held at least a year) and the bond investments are intended to be held to maturity. Nevertheless, it is possible that these securities could be sold more rapidly than anticipated due to unforeseen events. While Makrod primarily engages in long term purchases, it is possible that Makrod would recommend short term purchases (securities sold within a year of purchase) under certain circumstances. Makrod does not broker life insurance nor does it use options or futures as an investment strategy unless requested by the client.

##### **C. Tailoring of Advisory Services**

Makrod tailors the advisory services to the individual needs of clients by advising clients on a non-discretionary basis and by discussing potential investment decisions with each client. The client signs a limited power of attorney with the custodian/broker-dealer allowing Makrod to place trades in the client's account, but Makrod contacts the client for authorization prior to placing any trades. Clients may impose restrictions on investing in certain securities or types of securities by modifying the recommended investments as they

see fit. Clients may request that Makrod purchase or sell specific securities for their accounts which Makrod would not otherwise recommend.

**D. Wrap Fee Programs**

Makrod does not participate in any wrap fee programs.

**E. Discretionary and Non Discretionary Asset Management**

As of February 28, 2014, the last month end period, Makrod manages zero dollars on a discretionary basis and \$516,419,297 on a non-discretionary basis.

**Item 5: Fees and Compensation**

**A. How Makrod Is Compensated**

Makrod is compensated for its advisory services by a percentage of assets under management. Though the fee is negotiable, the standard fee schedule is as follows:

- 1% of the first \$1,000,000
- $\frac{3}{4}$  of 1% of the next \$1,000,000
- .6 of 1% of the next \$3,000,000
- .45 of 1% of the balance

**B. Fee Deduction or Direct Billing**

Makrod deducts fees from clients' assets and in other cases bills clients for fees incurred. The clients may select either method. Most clients have fees deducted and are billed semi-annually; however, some have requested to pay the bill directly and/or have quarterly billing.

**C. Other Types of Fees**

Clients may pay fees to their qualified custodian such as brokerage and other transaction costs, and clients should review the section(s) of this brochure that discusses brokerage. These costs may include, but are not limited to, brokerage commissions on trading, costs for wire transfers or overnight mail of funds, account maintenance fees, etc. Please see discussions of brokerage under Item 12 beginning on Page 9.

**D. Pre-payment of Fees and Refunds**

Most clients pay fees in advance although a client may request to pay at the end of the billing cycle. For purposes of calculating the fee the value is based on the client's custodian report. Fees are generally paid five months in advance for a semi-annual billing cycle. In practice, this means that if a client is billed in the month of January, that bill covers the management period of December to May and is based on the November 30<sup>th</sup> market value. On a quarterly billing cycle fees are generally paid two months in advance.

If the advisory contract is terminated before the end of the billing period, a client may obtain a refund of a pre-paid fee by contacting Makrod Investment Associates by telephone,

letter, or other form of communication. Makrod will determine the amount of the refund by calculating back to the date of the end of the advisory relationship and will refund the unused portion of the advisory fee.

**E. Compensation for the Sale of Securities**

Makrod and its supervised persons do not accept compensation for the sales of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

**Item 6: Performance – Based Fees and Side-By-Side Management**

This item is not applicable to Makrod.

**Item 7: Types of Clients**

Makrod provides advisory services to high net worth individuals, pension and profit sharing plans, individuals, trusts and charitable organizations. Makrod prefers that new accounts (i.e. new client relationships) have a minimum size of \$500,000; however, exceptions are made for referrals from existing clients.

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

**A. Methods of Analysis & Investment Strategies**

Makrod specializes in long term investing using fundamental analysis. Makrod primarily tailors portfolios around equities, fixed income, and cash/money market funds using a long term strategy. Makrod uses sources of information such as company press releases, annual reports, prospectuses, and filings with the Securities and Exchange Commission, corporate rating services, financial newspapers and magazines, etc. to analyze securities.

The investment strategy for equities primarily involves the long term purchases of securities (held at least a year) which Makrod believes are undervalued and offer the potential for appreciation and/or an attractive yield. In general, the strategy is value based. In the fixed income area it is possible that fixed income purchases will be of a duration of less than one year. As detailed below, though, investing in securities involves the risk of loss that clients should be prepared to bear.

**B. Material Risks of Analysis & Strategies**

It is important to note that in any investment one should be prepared for the risk of loss of capital. In longer term investing a risk is that the expected growth projections may not materialize as expected. It is possible that the overall stock market can decline, bringing down the value of securities, and/or the prices of individual securities decline due to underperformance within those particular securities. In both cases the value of the assets under management can decline. Value oriented investment strategies are subject to the risk that securities believed to be undervalued do not appreciate in value as anticipated.

### **C. Material Risks of Recommended Securities**

Makrod primarily recommends equities and fixed income to clients. The following is a discussion of the material risks involved in each.

Equity purchasers are subject to risk. The risk of investing in equities involves the risk that the price of the equity will decline in value and the client will suffer a loss.

Stock markets are volatile. The price of equity securities fluctuates based on changes in a company's financial condition and a myriad of market and economic conditions. External events may negatively affect the value of a specific company and the client's holdings.

Similarly, fixed income purchasers face the following risks when investing: interest rate risk, inflation risk, financial risk and liquidity risk.

**Interest-Rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.

**Inflation Risk:** Inflation has a corrosive effect on purchasing power. When inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation. Inflation lowers the real value of future fixed cash flows, such as a fixed payment on a bond. The anticipation of inflation, or higher inflation, may depress prices immediately.

**Financial Risk:** Excessive borrowing to finance a business' operations increases the risks regarding profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value. This may cause default, in which case the client may lose the value of their investment.

**Liquidity risk:** There may not be a continuous secondary market for a bond so that the investor may not be able to re-sell the bond at or near a fair price if he elects not to hold it until maturity.

### **Item 9: Disciplinary Information**

This item is not applicable to Makrod.

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

Makrod has no other financial industry activities and affiliations so this item is not applicable to Makrod.

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

### **A. Description of Code of Ethics**

Makrod's Code of Ethics was adopted pursuant to SEC 204 A-1. The Code states that investment advisers are fiduciaries and have a duty of honesty, good faith and fair dealing. Therefore, Makrod and its employees, in addition to complying with the applicable federal securities laws, must act in the clients' best interests and with good faith and fair dealing. The Code requires that employees act with duty, integrity, propriety, protection and confidence regarding clients and client information. All employees must certify annually that they have read, agreed to and understood the Code and must provide an annual securities holding report. Pursuant to the Code of Ethics, all employees should conduct their personal securities transactions in a manner consistent with the Code of Ethics and seek to avoid any conflict of interest. All employees must comply with Makrod's policies and procedures regarding personal securities transactions, including but not limited to the provisions requiring the pre-clearance by the Chief Compliance Officer before any participation in Initial Public Offerings (IPOs) or Limited or Private Offerings, and periodic reporting requirements. The Code states that Makrod will provide a copy of its Code of Ethics to any client or prospective client upon request.

### **B. Securities with a Material Financial Interest**

Neither Makrod nor a related person recommends to clients, or buys and sells for client accounts, securities in which we have a material financial interest, except as described below in Section C regarding investing in the same securities it recommends to clients.

### **C. Investing in the Same Securities as Clients**

Makrod or a related person invests in the same securities that Makrod or a related person recommends to clients. Makrod recommends to clients the same securities which advisory representatives own personally. The following is a discussion of Makrod's practice and of the conflicts of interest this presents and generally how Makrod addresses the conflicts that arise in connection with personal trading. Broadly speaking, each person employed by Makrod is required to maintain a standard of conduct in effecting securities transactions that avoids both the reality and the appearance of gaining personal advantage at the expense of any third party, including clients.

Under the Makrod Securities Trading Policy, all employees must complete an annual report of their securities holdings, which is also a component of the Code of Ethics. Moreover, they must complete a Quarterly Compliance Certificate within 30 days after the close of the calendar quarter. This certificate indicates whether the employee has engaged in any personal securities trading during the quarter. If an individual has engaged in a personal securities transaction, that individual must also provide a Quarterly Securities Transaction Report within thirty days after the last day of the quarter. The independent firm of Quinn & Quinn, CPAs, has been retained to oversee compliance with the policy of prohibiting the purchase and sale of securities while in possession of material non public information. Quinn & Quinn examines Makrod's clients' memoranda against Makrod's employees'



trades, and submits a quarterly report to Makrod if it finds violations. Employees are prohibited from participating in an initial public offering (IPO) or limited or private placement without the pre-approval of such participation by the Chief Compliance Officer, and from trading in the same security on the same day as a client when making new securities recommendations or reviving previously made securities recommendations. If an employee trades in a manner that is simultaneous or contemporaneous with a client a memorandum must document the steps taken to ensure that the client received best execution.

**D. Trading in the Same Securities at the Same Time as Clients**

If Makrod or a related person recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that Makrod or a related person buys or sells the same securities for its own (or the related person's own) account, the practice is as follows.

When making new securities recommendations or reviving previously made securities recommendations, if Makrod employees trade in the same security on the same day as a client (a.k.a. in a manner that is simultaneous or contemporaneous with a client) a memorandum must document the steps taken to ensure that the client received best execution.

Makrod addresses the conflicts that arise as follows: a memorandum would be drafted to analyze, among other factors, whether the security is a large cap, mid cap or small cap; what the daily volume of the security is; the size of the trade in comparison to the daily volume in the security; whether the trading could benefit the adviser versus the client, and whether the trading by the advisory representative impeded the client from receiving best execution. The independent CPA firm of Quinn & Quinn would review the memorandum to see if further steps need to be taken or whether the trade by Makrod or the advisory representative did not impede the client from receiving best execution. Best execution would include factors such as price per share; the opportunity to get a better price than what is currently quoted, lack of trade errors, quality service, etc. Quinn & Quinn compares the client trade versus the advisor's trade and makes a determination as to whether the firm impeded the client's ability to get best execution and, if so, recommends appropriate action.

**Item 12: Brokerage Practices**

**A. Factors Considered in Selecting Broker-Dealers**

In recommending broker-dealers for client transactions, Makrod has identified three major broker dealers: Charles Schwab, Merrill Lynch, and Morgan Stanley Smith Barney. We recommend these firms because we believe they have client service teams that can provide quality execution for clients. We believe they have client service ability and reasonable fees. Makrod determines the reasonableness of their compensation by comparing cents per share, but also by looking at the qualitative level of their execution, including client service.

Makrod believes that each of these firms has the ability to give best execution, meaning that the client achieves a trade execution in which the client's total cost or proceeds in each transaction is the most favorable under the circumstances. Makrod examines the overall, "all-in" cost of the trade or proceeds received, so that best execution can maximize the client's total portfolio value.

1. Research and Other Soft Dollar Benefits: Makrod receives research and other products or services other than execution from two broker-dealers in connection with client securities transactions ("soft dollar benefits"). The following is a discussion of Makrod's practices and the conflict of interest they create.

For clients who use Charles Schwab Institutional, Makrod receives Schwab products and services that assist Makrod in administering clients' accounts, such as access to the Schwab Institutional website. This technology provides on-line access to web trading, client account data, statements, client tax reports, etc., among other services. The website also enables Makrod to access research from third party research providers, as well as proprietary Schwab research.

Makrod also receives products and services from Morgan Stanley Private Wealth Management that similarly provide on-line access to client account data, including market values, account statements, trade confirmations, tax reports, etc. Makrod also is able to access proprietary Morgan Stanley research reports and research from independent research providers using this website.

Because of the concern that access to these websites provides a conflict of interest that incentivizes Makrod to place client accounts at Morgan Stanley Wealth Management or Charles Schwab Institutional instead of at another broker, Makrod uses the Advent custodial software system and receives a daily download of account data into Advent. This allows Makrod to see client account data as of the prior day's close.

- a. When Makrod uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, Makrod receives a benefit because it does not have to produce or pay for the research, products or services.
- b. Makrod may have an incentive to select or recommend a broker-dealer based on Makrod's interest in receiving the research or other products or services, rather than on our clients' interest in receiving most favorable execution.
- c. Makrod does not believe that it causes clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits because it believes that Morgan Stanley and Schwab provide quality execution.
- d. Makrod uses soft dollar benefits to service all of its clients' accounts who are custodied at those firms: the websites it is able to access from Schwab and Morgan Stanley Private Wealth Management provide reporting data on all the clients who custody at Schwab and Morgan Stanley Private Wealth Management.

- e. Makrod and its related persons received access to the Schwab Institutional Website and to the Morgan Stanley Private Wealth Management website with client brokerage commissions within our last fiscal year. These websites give access to proprietary research (i.e. Schwab and Morgan Stanley research), third party research (i.e. Standard and Poors, Argus, etc.) as well as access to account data.
  - f. During the last fiscal year Makrod did not use procedures to direct client transactions to particular broker-dealers in return for soft dollar benefits. Makrod maintained existing relationships at Schwab and Morgan Stanley, so Makrod believes that any new clients who opted to use Morgan Stanley or Charles Schwab did not change or enlarge our soft dollar arrangements.
2. Brokerage for Client Referrals – When selecting or recommending broker-dealers, neither Makrod nor a related person considers whether it receives client referrals from a broker-dealer or third party since Makrod does not receive client referrals from broker-dealers or third parties.
3. Directed Brokerage
- a. Makrod does not routinely recommend, request or require that a client direct Makrod to execute transactions through a specified broker-dealer.
  - b. Makrod permits a client to direct brokerage. The selection of the broker is the decision of the client and in practice clients have opted to use brokerage firms with which Makrod has no other relationships. Clients have elected to use their own brokers because they have a relationship with a particular brokerage firm. In these situations, Makrod may be unable to achieve most favorable execution of client transactions so that directing brokerage may cost clients more money. For example, in a directed brokerage account the client may pay higher brokerage commissions because Makrod may not be able to aggregate orders to reduce transaction costs, or the client may receive less favorable prices. Clients may also be unable to receive the same quality of service at a directed broker than at a broker with which Makrod has frequent contact.

#### **B. Aggregating Purchase and Sale Orders**

Makrod may aggregate the purchase or sale of securities for various accounts when the clients are related. Makrod does not otherwise aggregate orders when it has the opportunity to do so. While this may affect negatively client costs in terms of price per share or commission, Makrod believes that since its clients have discretion, each account should be treated separately and each trade should be placed after speaking with the client rather than waiting to speak to other clients and aggregating orders.

#### **Item 13: Review of Accounts**

##### **A. Frequency and Nature of a Periodic Review**

Makrod reviews client accounts on an ongoing basis. Securities invested in clients' portfolios are reviewed continuously. Accounts are reviewed approximately on a bimonthly basis. The

nature of the review is to, among other areas, examine the securities in each portfolio and to identify whether they are performing as expected, to identify whether additional investments should be proposed for the cash on hand, to decide if certain securities should be recommended for sale, etc. The investment advisors (John T. O'Donnell, Kathryn R. O'Donnell, and Benedict Schlatter) review accounts.

**B. Factors Triggering a Non-Periodic Review**

This item is not applicable to Makrod.

**C. Reports Provided to Clients**

Makrod provides regular reports to clients regarding their accounts. Clients receive monthly written reports of assets from their custodians via custodial brokerage statements. Makrod prepares a formal written portfolio review every six months listing cost, market value, estimated income per year, and total portfolio growth of account to date. Realized gains and losses are also tracked in the Makrod semi-annual report. Makrod sends clients written communications in the mail or via e-mail on a periodic basis on investment seminars attended, analyst meetings attended, updates on news regarding securities they own, and on general business items. Clients' accounts are also reviewed via telephone conversations and personal meetings with our staff and clients.

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

This item is not applicable to Makrod.

**Item 15: Custody**

Makrod has custody of client funds or securities through its ability to deduct fees from client accounts. A qualified custodian directly sends monthly statements to Makrod's clients. Clients will receive account statements from the broker-dealer or other qualified custodian and clients should carefully review those statements. While clients do not receive account statements from Makrod, clients receive a semi-annual portfolio review from Makrod which includes a copy of the custodian's statement. The clients are advised to compare the figures in the Makrod review with the numbers on the monthly statement from the qualified custodian.

**Item 16: Investment Discretion**

Makrod does not accept discretionary authority to manage securities accounts on behalf of clients.

**Item 17: Voting Client Securities**

**A. Authority to Vote Client Securities**

Makrod does not have nor will it accept authority to vote client securities.

**B. No Authority to Vote Client Securities**

Makrod does not have authority to vote client securities. Clients will receive their proxies or other solicitations directly from their custodian. If clients have questions about a particular solicitation they can contact Makrod via telephone, email, regular mail, etc. with questions on the issue.

**Item 18: Financial Information**

This item is not applicable to Makrod.

**Item 19: Requirements for State-Registered Advisers**

This item is not applicable to Makrod as all pertinent questions have otherwise been answered elsewhere in Form ADV.