

Makrod Investment Associates 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. 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.

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Item 2 Material Changes

As this is the first year of the new narrative brochure, there are no material changes from the previous year.

Item 4 Advisory Business

- A. 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, 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. Makrod provides investment supervisory services to clients for a percentage of assets under management. Makrod primarily provides recommendation on long term investments in equities as well as on fixed income investments using fundamental analysis. Generally speaking, Makrod constructs portfolios around three types of instruments: equities, fixed income and cash/money market funds. Most portfolios consist of at least two of those three instruments. However, 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 will provide advice on exchange-listed securities, securities traded over-the-counter, and on foreign issuers. In practice the preponderance of its stock recommendations relate to New York Stock Exchange listed mid cap (\$1 billion - \$10 billion in market capitalization) and large capitalization (\$10 billion and over) securities, with market capitalization representing the equity value of the company. Historically Makrod has favored investments in blue chip listed securities paying dividends using a long term purchase strategy (holding for > one year). Makrod also provides advice on fixed income securities, primarily investment grade. Within fixed income, Makrod will provide advice on United States government securities (such as U.S. Treasuries), municipals bonds and corporate bonds.

Generally speaking, Makrod favors an investment strategy rather than a trading strategy, which to Makrod means that the equity investments are intended as long term purchases (meaning 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) 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. 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. In practice clients have requested that Makrod purchase or sell specific securities for their accounts which Makrod would not otherwise recommend for clients. Clients have requested that certain securities be added to portfolios or sold from their portfolios, and clients often direct that cash be distributed from the portfolio for their personal use. Clients may also direct that certain securities not be included in the portfolio for moral reasons, such as, for example, tobacco stocks or "sin stocks", and may direct that certain types of securities not be included in the portfolio, although the former is more common in practice than the latter.
- D. Makrod does not participate in any wrap fee programs.
- E. As of Monday, March 21, 2011, Makrod manages zero dollars on a discretionary basis and \$340,008,582 on a non-discretionary basis.

Item 5 Fees and Compensation

- A. 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. 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 directly and/or have quarterly billing.
- C. Clients may pay fees or expenses to their qualified custodian. Clients will incur 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 10.

- D. Most clients pay fees in advance although in practice a client may request to pay at the end of the billing cycle. 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. 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 forms 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 fees.

- E. 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's clients include 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 and most especially for relatives of existing clients.

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

- A. The methods of analysis and investment strategies Makrod uses in formulating investment advice or managing client assets are based on long term investing using fundamental analysis. Makrod uses sources of information such as financial newspapers and magazines, annual reports, prospectuses, and filings with the Securities and Exchange Commission, company press releases, corporate rating services, etc. to analyze securities. Generally speaking, Makrod tailors portfolios around equities, fixed income and cash/money market funds, and favors a strategy of long term investment (holding the security for more than one year) rather than a trading based strategy.

The investment strategy for equities primarily involves the long term purchases of securities (held at least a year). It is possible that fixed income purchases will be of a duration of less than one year. In general, the strategy is a buy and hold, value based perspective. Investing in securities involves the risk of loss that clients should be prepared to bear.

- B. As long term investing is a significant strategy employed by Makrod, it is important to note the following risks. One risk of longer term investing is that the expected growth projections may not materialize as expected as time passes. If a client is invested in a long-term investment there is a risk that one will have less control over the investment until it matures or is sold than a client would have had with a shorter term investment. Moreover, a long term investor may not be able to see whether he is at a gain or loss with his investment as quickly as if he or she had invested in a security whose time horizon is more constrained.
- C. 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 both systemic and non-systemic 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.

In the case of systemic risk, it is possible that there will be market-wide movements influenced by macro-economic events that will negatively affect a client's portfolio. For example, on Oct. 9, 2007, the Dow Jones closed at 14,164, yet by March 9, 2009, the Dow Jones closed at 6,547.

Equity holders also are subject to non-systemic risk, or risk that is company specific. It is possible that a client could be invested in a stock of a corporation that goes bankrupt and the value of the investment could go to zero, such as, the once high flying energy company Enron, which filed for bankruptcy in 2001 due to dubious accounting practices, among other reasons. Non-systemic risk also could mean that a shareholder runs the risk that a company in which he or she is invested could face product liability issues, regulatory issues, or competitive issues that could cause the stock price to decline.

Similarly, investing in fixed income (bonds) also exposes clients to the risk of default, the risk of inflation, and the risk of lack of liquidity, among other risks. For municipal securities and corporate securities, it is possible that the issuer could default on the bond, meaning that either the coupon or the principal is not repaid. If a client is invested in a bond issued by a municipality or a corporation that goes bankrupt the client may see his or her investment go to zero. Historically, Orange County, CA filed for bankruptcy in 1994 and this remains one of the largest defaults in the municipal bond arena within the past twenty-five years. Within corporate bonds, Lehman Brothers, a former investment grade issuer, defaulted in 2008, and filed for the largest bankruptcy in U.S. history. In both cases the defaults caused bondholders to suffer losses.

While the U.S. government has never defaulted on a Treasury, there are concerns that an unprecedented spending by the U.S. government and the Federal Reserve will inevitably cause interest rates to rise, reducing the value of existing Treasury securities. Investors should be willing to bear these possible risks.

Moreover, a bondholder can be subject to liquidity risk, meaning that 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 to maturity.

Another risk of cash and fixed income is that the client could lose purchasing power due to the effects of inflation. Inflation has a corrosive effect on purchasing power. 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.

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. 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 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. 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. 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 or may be included in the company retirement plan. 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 prohibiting 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. 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. For example, if a Makrod advisory representative trades 100 shares in a company with a large market capitalization (value of over \$10 billion) and a high volume it is unlikely that the trade by the Makrod advisory representative should have prevented the client who traded on the same day 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, the speed of execution, to insure that clients received the best qualitative execution for the account. Quinn & Quinn compares the client trade versus the advisor's trade and makes a determination as to whether the firm impeded on the client's ability to get best execution, and, if so, recommends appropriate action.

Item 12 Brokerage Practices

- A. In selecting or recommending broker-dealers for client transactions and determining the reasonableness of compensation, Makrod favors three major broker dealers: Charles Schwab, Merrill Lynch, and Morgan Stanley Smith Barney. We favor these firms because we believe they have strong operations teams that can provide quality execution for clients. They also have survived the financial services industry upheaval and have emerged in a stronger position with fewer major competitors as a result, and therefore clients would not fear that their custodian potentially may go out of business, which could disrupt accounts. 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 Argus and Standard and Poor's, among other research providers, as well as proprietary Schwab research.

Makrod also receives products and services from Morgan Stanley Private Wealth Management that similarly provide 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 such as Standard and Poor's 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 data on a one-day delay, so that Makrod can see trade confirmations, account values, etc. While this does not match the offerings of Morgan Stanley or Schwab, it is an attempt to equalize clients who use other brokers or direct brokerage with clients who use Charles Schwab Institutional or Morgan Stanley Private Wealth Management in terms of freshness of account data. Almost all of Makrod's clients data are accessible via Advent, with the exception of three custodians where the clients direct brokerage. Makrod also feels that the conflict is mitigated by the fact that clients who use Morgan Stanley Private Wealth Management and Charles Schwab Institutional get the benefit of having advisory representatives having up to date access to account values and having an enhanced ability to service their accounts.

- 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, because the web systems it is able to access from Schwab and Morgan Stanley Private Wealth Management provide reporting data on all the clients who use Schwab and Morgan Stanley as a broker-dealer.
- 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,

though, 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, regardless of Makrod's lack of familiarity with that 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. Makrod may aggregate the purchase or sale of securities for various accounts when the clients are related, such as orders for husband and wives accounts or accounts for multiple children. 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. Makrod reviews client accounts on an ongoing basis. 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. John Thomas O'Donnell, President, and Kathryn Rose O'Donnell, Vice President, review accounts.
- B. This item is not applicable to Makrod.
- C. The content and frequency of regular reports Makrod provides to clients regarding

their accounts are as follows: monthly written reports of assets are sent to clients by their custodians via custodial brokerage statements. A formal written portfolio review is prepared by Makrod 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. Clients also receive 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 also are contacted via telephone to discuss accounts.

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 directly 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 strongly 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. Makrod does not have nor will it accept authority to vote client securities.
- B. Makrod does not have authority to vote client securities. Clients will receive their proxies or other solicitations directly from their custodian. If clients had questions about a particular solicitation they could 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.