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## **ADV Brochure**

**Kerwin-Beley & Associates, Inc.**

**200 W Mercer Street, Suite 407**

**Seattle, WA 98119**

**206.352.1500**

**888.742.1700**

**December 31, 2011**

This Brochure provides information about the qualifications and business practices of KERWIN-BELEY & ASSOCIATES, Inc. (Kerwin-Beley). If you have any questions about the contents of this Brochure, please contact us at 206.352.1500 and/or [jbeley@kerwin-beley.com](mailto:jbeley@kerwin-beley.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.

KERWIN-BELEY & ASSOCIATES is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

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## Item 2 – Material Changes

Pursuant to the Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting James F. Beley, President at 206.352.1500 or [jbeley@kerwin-beley.com](mailto:jbeley@kerwin-beley.com).

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") made significant changes to the regulation of investment advisors and instructed the US Securities and Exchange Commission ("SEC") to develop rules to implement those changes. This affects mid-size investment advisors registered with the SEC with less than \$100 million in assets under management; they must switch from SEC oversight to state registration. KERWIN-BELEY & ASSOCIATES is in the process of changing our registration from the SEC to Washington and California.

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### Item 3 -Table of Contents

Item 1 – Cover Page.....	i
Item 2 – Material Changes .....	ii
Item 3 -Table of Contents.....	iii
Item 4 – Advisory Business .....	1
Item 5 – Fees and Compensation .....	1
Item 6 – Performance-Based Fees and Side-By-Side Management.....	3
Item 7 – Types of Clients .....	3
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	3
Item 9 – Disciplinary Information .....	4
Item 10 – Other Financial Industry Activities and Affiliations.....	4
Item 11 – Code of Ethics, Participation/Interest In Client Transactions & Personal Trading	4
Item 12 – Brokerage Practices .....	5
Item 13 – Review of Accounts .....	6
Item 14 – Client Referrals and Other Compensation .....	6
Item 15 – Custody .....	6
Item 16 – Investment Discretion .....	6
Item 17 – Voting Client Securities .....	7
Item 18 – Financial Information.....	7
Item 19 – Requirements for State-Registered Advisers.....	7
Brochure Supplement(s)	

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#### **Item 4 – Advisory Business**

We first determine your individual needs, objectives, and risk tolerances through questionnaires and personal interviews, then develop a written Investment Policy (IPS), which reflects your wishes. The IPS stipulates the permissible range of stock and fixed income participation. The IPS also states the maximum exposure allowable in the many asset classes available (ie: large cap, mid-small cap, foreign, emerging, real asset, and utility stocks; treasury, mortgage-backed, corporate, high yield, foreign, and municipal bonds.) Clients may impose restrictions on investing in certain types of mutual funds. Once we have agreed on our investment management parameters we build your portfolio of mutual funds. We structure the portfolio to meet your objectives and diversify adequately to stay within your risk tolerances. As we move through the economic, business, and market cycles we continuously monitor your portfolio and make changes to the portfolio mix. Our approach is not to trade but rather to move in the direction of undervaluation and away from overvaluation of asset classes. On a longer time basis we review the Investment Policy because of major economic/market events or significant life changes.

Our primary business activity is investment management, however we also provide, on request, retirement planning projections and general financial advice.

We have been doing business as Kerwin-Beley & Associates since 1974 and incorporated the business on January 6, 1985. We have two owners Charles C. Kerwin and James F. Beley, each owns 50% of the stock. As of December 31, 2011 our assets under management are \$51,451,512, of which \$46,508,143 is discretionary and \$4,943,369 is non-discretionary.

#### **Item 5 – Fees and Compensation**

Our fees for investment management services are charged as a percentage of assets under management. The fees on the first \$500,000 of assets range from 1.25% to 0.75% based on the allocation agreed between stocks and fixed income. Fees on assets over \$500,000 are charged at 0.25% less than the rate on the first \$500,000. Fees on assets over \$1,000,000 are charged at 0.5% less than the rate on the first \$500,000. All fees are subject to negotiation. Our minimum annual investment management fee is \$1,000. Services other than investment management (ie: retirement planning projections or general financial

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questions) are billed at \$120 per hour. Lower fees for comparable services may be available from other sources.

The specific manner in which fees are charged by Kerwin-Beley is established in a client's written agreement with Kerwin-Beley & Associates, Inc. Kerwin-Beley will generally calculate its fees on an annual basis and that fee is due and payable in advance each calendar quarter. Clients may also elect to be billed directly for fees or to authorize Kerwin-Beley to directly debit fees from client accounts. Management fees shall be prorated for each capital contribution and withdrawal made during the applicable calendar quarter with the exception of de minimis contributions and withdrawals. Accounts terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees on a monthly basis will be promptly refunded, and any earned, unpaid fees will be due and payable.

Clients who give us discretionary authority typically give us cash or mutual funds to manage. Those assets are deposited into a Charles Schwab account in the client's name and we are given a limited power of attorney to manage your funds. We only buy mutual funds and mostly we use no-load or no transaction fee mutual funds. If we determine it will be less expensive for you we will purchase institutional shares with a lower expense ratio and have you pay a small transaction fee. If you deposit individual stocks into your managed account it will be with the understanding that eventually we will sell those stocks and reinvest the proceeds into a mutual fund.

Kerwin-Beley's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot

differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus.

Such charges, fees and commissions are exclusive of and in addition to Kerwin-Beley's fee. Kerwin-Beley shall not receive any portion of these commissions, fees, and costs. We make every effort to minimize your expenses as it does affect our bottom-line performance.

Employees of Kerwin-Beley generally purchase the same mutual funds that we select for our clients. Since all mutual funds are priced once a day at the close of the market we have

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no conflict with you. If we purchase a mutual fund for clients over more than one day then employee's and family purchases occur on the day we complete purchases for clients.

Item 12 further describes the factors that Kerwin-Beley considers in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

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

Kerwin-Beley does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

### **Item 7 – Types of Clients**

Kerwin-Beley provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, and foundations. Our minimum account size to open or maintain an account is determined by our minimum fee of \$1,000.

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

Kerwin-Beley's analysis methods include charting, fundamental, technical, cyclical, and monetary data. Our main sources of information include financial newspapers and magazines, research materials prepared by others, annual reports, prospectuses, and filings with the Securities and Exchange Commission. Monetary data is accessed through the St. Louis Federal Reserve web page. Mutual fund analysis begins with the extensive data base at Morningstar. We participate in conference calls with mutual fund managers and occasionally personal interviews by phone or in person.

Our investment strategy is to first determine the percentage of stocks and fixed income we should hold in your portfolio. Within the stock allocation we determine what should be allocated to large, mid, and small caps both foreign and domestic. Within foreign we determine how much should be developed or emerging markets. Lastly we determine whether we should overweight or underweight the growth or value styles. Within fixed income we first determine the appropriate duration/maturity of the portfolio. The next policy decision is the average credit quality desired. We then decide what allocation is appropriate between government/agency, municipal, corporate, high-yield, floating rate, and foreign developed or emerging. Once investment policy is established we begin

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research for the best mutual funds in those assets we wish to allocate. Emphasis is placed on the mutual fund manager(s) as we are hiring them to invest in a specific asset class for you. Their tenure, record, consistency, ownership and risk taking are important elements.

Investing in securities involves risk of loss that you should be prepared to bear. Diversification can reduce loss potential, however it cannot eliminate loss in a bad economic/market environment. Mutual funds facilitate diversification and make specific management skills and facilities available to you. By combining investments that do not rise and fall in lockstep during the same economic environment, the overall portfolio risk level can be decreased and the return potential can be increased. Individual mutual funds, like emerging markets, can realize significant gains or losses; however the risk of any particular asset is best measured in terms of the risk the asset adds to a well-diversified portfolio of assets.

#### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Kerwin-Beley or the integrity of Kerwin-Beley’s management. Kerwin-Beley has had no legal or disciplinary events.

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

Neither Kerwin-Beley nor any management personnel have material relationships with any related financial industry participants. Neither Kerwin-Beley nor its principal executive officers are involved in something other than providing investment advice. Kerwin-Beley nor any related persons have any arrangements, oral or in writing, where it receives some economic benefit from a non-client in connection with giving advice to clients. We do not, directly or indirectly, compensate any person for client referrals.

#### **Item 11 – Code of Ethics, Participation/Interest in Client Transactions & Personal Trading**

Kerwin-Beley has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics

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includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Kerwin-Beley must acknowledge the terms of the Code of Ethics annually, or as amended.

Kerwin-Beley anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which Kerwin-Beley has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of mutual funds in which Kerwin-Beley, its affiliates and/or clients, directly or indirectly, have a position of interest. Kerwin-Beley's employees and persons associated with Kerwin-Beley are required to follow Kerwin-Beley's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Kerwin-Beley and its affiliates may trade for their own accounts in mutual funds which are recommended to and/or purchased for Kerwin-Beley's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Kerwin-Beley will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of mutual funds have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Kerwin-Beley's clients. In addition, the Code restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same mutual funds as clients, there is a possibility that employees might benefit from market activity by a client in a mutual fund held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Kerwin-Beley and its clients.

Kerwin-Beley's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting James F. Beley.

## **Item 12 – Brokerage Practices**

Kerwin-Beley custodies most client accounts at Charles Schwab as they have reasonable fees and a substantial no-transaction fee mutual fund platform. All mutual fund buys and sells are executed at Charles Schwab at the same price that could be filled elsewhere.



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Kerwin-Beley has the authority to determine which mutual funds to buy or sell and in what quantities. Kerwin-Beley does not receive soft dollar benefits from any source. We do not direct trades in return for client referrals.

### **Item 13 – Review of Accounts**

Investment policy is reviewed continuously by Kerwin-Beley's two principals. Individual client accounts are reviewed by a firm principal no less than quarterly. Other factors triggering a review are a change in investment policy, substantial addition or withdrawal, significant life event, and a major market change. Individual written investment policies are reviewed about every five years or after a significant life event. Written reports are mailed quarterly and where possible written annual reports are delivered in person by a firm's principal.

### **Item 14 – Client Referrals and Other Compensation**

Kerwin-Beley receives no economic benefit (including sales awards or prizes) from a non-client for providing advisory services to a client. We do not compensate anyone for client referrals.

### **Item 15 – Custody**

Clients should receive at least quarterly statements from the qualified custodian that holds and maintains client's investment assets. Kerwin-Beley urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

### **Item 16 – Investment Discretion**

Kerwin-Beley usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of mutual funds to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting mutual funds and determining amounts, Kerwin-Beley observes the

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investment policies, limitations and restrictions of the clients for which it advises. Investment guidelines and restrictions must be provided to Kerwin-Beley in writing.

#### **Item 17 – Voting Client Securities**

As a matter of firm policy and practice, Kerwin-Beley does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. Kerwin-Beley may provide advice to clients regarding the clients' voting of proxies.

#### **Item 18 – Financial Information**

Kerwin-Beley does not have custody of client funds or securities, we only have limited discretionary authority to execute trades for the client and to withdraw quarterly fees if so authorized. Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Kerwin-Beley's financial condition. Kerwin-Beley has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has never been the subject of a bankruptcy proceeding.

We do not require or solicit prepayment of more than \$500 in fees per client, six months or more in advance.

#### **Item 19 – Requirements for State Registered Advisors**

- A) The formal education and business background of our principal executive officers is described elsewhere on our Form ADV
- B) We are not actively engaged in any other business other than giving investment advice.
- C) No one at Kerwin-Beley & Associates, Inc. is compensated for advisory services with performance based fees.
- D) No one at Kerwin-Beley & Associates, Inc. has ever been accused of or found liable in an arbitration, civil, self-regulatory organization or administrative proceeding.

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E) No one at Kerwin-Beley & Associates, Inc. has any relationship or arrangement with any issuer of securities that is not listed in Item 10C of Part 2A