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# FORM ADV PART 2A SEC-Required Investment Advisor Brochure

Private Ocean, LLC  
750 Lindaro Street, Suite 130  
[www.privateocean.com](http://www.privateocean.com)  
Tel: 415.526.2900  
Fax: 415.459.3956

March 2012

This brochure provides information about the qualifications and business practices of Private Ocean, LLC. If you have any questions about the contents of this brochure, please contact us by telephone at 415.526.2900. The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission or by any state authority.

Additional information about Private Ocean, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



## **MATERIAL CHANGES FROM PRIOR FORM ADV PART 2A**

### **Removed:**

### **Edited:**

In “Review of Accounts” section the text “A face-to-face meeting with each client occurs at least once a year, and the client's account is formally reviewed in preparation for the meeting.” has been replaced with “A face-to-face meeting or conference call with each client occurs at least once a year, and the client's account is formally reviewed in preparation for the meeting. If, due solely to the client’s schedule we are unable to conduct a face-to-face meeting or call, we will provide recommendations to the client by mail or email, will seek approval for any structural changes in portfolio, and will subsequently conduct rebalancing/portfolio management per the client’s asset allocation model.”

### **Added:**



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## 1. ADVISORY BUSINESS

Registration Status – Registered with the SEC since 1983  
Principal Owners – Richard A. Stone, Gregory H. Friedman

### ADVISORY SERVICES

Private Ocean, (“Private Ocean” “Advisor” or the “Firm”) is a California limited liability company. The Firm may provide (or offers to provide) investment management and other financial planning services to its clients, which include high net worth individuals, trusts and estates, pensions and profit sharing plans, 401(k) plans, corporations and other business entities. Investment management services are provided on both a discretionary and non-discretionary basis and include, among others, financial goal setting, risk assessment, strategic asset allocation and the selection and management of securities and investments.

### Financial Planning Services

Private Ocean offers to provide (or may provide) personal comprehensive financial planning services. Financial plans incorporate a client’s current financial circumstances, personal objectives, potential problem areas and available financial options to achieving client’s goals. The planning techniques used to create a personal financial plan fall within the following areas:

1. **Accumulation and Retirement Planning.** This analysis includes income tax and investment planning; alternatives as to organization and ownership of assets to minimize taxes; evaluation of existing investments for tax and risk characteristics and recommendations for appropriate changes. Also includes analysis of capital needs for retirement and long term care issues.
2. **Fringe Benefit Planning.** This analysis includes advice with respect to executive compensation, including qualified pension and profit sharing plans, non-qualified deferred compensation programs and stock option planning.
3. **Business Continuation Planning.** Financial options are analyzed with respect to the continuation or disposition of the business upon the owner’s retirement, death, disability or decision to sell.
4. **Estate Planning.** This analysis includes financial and tax implications with respect to property distribution, property titling, estate tax reduction techniques and estate tax payment options. It involves discussion and evaluation of various types of trusts, gifts, charitable planning, etc.



5. **Asset Protection.** This includes a review of all property and casualty insurance with an appropriate referral to a specialist if necessary to update coverage. Also includes a review of available options to help protect assets from unwarranted litigation.

Financial planning and financial consultations may be subject to separate written agreements with the Firm that provide for fixed or hourly fee assessments.

### **Investment Advising**

Through our financial planning process, and subsequent client consultations, Private Ocean determines the client's investment objectives and develops individualized investment guidelines and an asset allocation strategy based upon the client's financial condition, investment experience, time horizon, risk tolerance level, income requirements and other factors. Private Ocean evaluates the client's existing investments and where appropriate develops a plan to transition existing investments into or out of the client's new portfolio strategy. Securities transactions are supervised on a continuous basis and each client's portfolio holdings and asset allocations are monitored on an annual basis, at a minimum.

Private Ocean's investment process entails four primary steps:

1. Gather information to determine client investment profile, such as: goals (financial and psychological), personal financial information (age, income, expenses, net worth, etc.), investment objectives (income, growth, liquidity, tax deferral, etc.), investment horizon, and risk tolerance.
2. Establish investment policy covering cash needs, asset allocation, dividend policy (cash or reinvest), and alternative investments. Private Ocean's investment policy typically takes into consideration outside securities that are held by the client but not managed by Private Ocean, including some concentrated stock positions or stock options.
3. Select and acquire mutual funds, separate accounts and other investment vehicles that are suitable in light of client investment profile and investment policy.
4. Monitor portfolio performance and rebalance to the target allocation when appropriate.

With respect to item 4 above, the trigger for rebalancing is a 25% differential between the current and target percentage allocation in any one major asset class (cash, stocks, bonds, real estate or futures contracts). However, Private Ocean recommends portfolio revisions only after a careful analysis of transaction costs, which include commissions for buying and selling securities, and potential capital gains tax liability. Private Ocean also monitors and analyzes portfolio risk and incorporates current and potential changes to portfolio risk when recommending changes to portfolio allocations.



In performing its services, Private Ocean is not required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains the client's responsibility to promptly notify the Firm of any change in their financial situation or investment objectives that would necessitate a review, evaluation or revision by Private Ocean of previous recommendations and/or services. Clients are also responsible for notifying Private Ocean of any restrictions on purchasing specific securities or types of securities in client accounts.

## **ASSETS UNDER MANAGEMENT AS OF DECEMBER 31, 2011**

Discretionary Assets – \$642,717,980

Non-discretionary Assets – \$669,790,435

## **2. FEES AND COMPENSATION**

### **ADVISORY FEES**

Private Ocean's investment advisory fee is based upon a percentage of the value of client account assets placed under the Firm's management. Valuations of liquid securities are provided to Private Ocean by the client's third party custodians (e.g., Charles Schwab or custodian where client assets are held) or by Private Ocean-purchased third-party pricing services (e.g., Annuity Pricing Center). Third party separate account managers (see below) are required to custody assets at third party custodians, who provide valuation of those assets. Client account reports are reconciled to valuation reports at least quarterly.

Non-liquid investments (funds) such as limited partnerships, limited liability companies or non-traded real estate investment trusts (REITs) are valued at net asset values reported by investment sponsors. If a sponsor does not report a current price, (which typically occurs during the initial investment stages of capital investment) then the units or shares are carried at amount of original investment. We do not conduct appraisals of any investments and do not make any representation or warranty, express or implied, as to the accuracy or reasonableness of any current price. However, Private Ocean holds only those non-liquid investments that have (at a minimum) annual financial audits by a third party accountant. Private Ocean reviews annual audited financial reports from non-liquid providers in an attempt to insure accurate pricing.

The amount that units or shares can be sold for in the secondary market is probably lower than the value shown on a client's account balance sheet.

Sponsors of non-liquid funds typically report prices 45-60 days after the end of each calendar quarter. Sponsors of non-liquid funds-of-funds typically report 135-160 days after the end of



each calendar quarter. Private Ocean charges asset management fees on non-liquid investments. Since there is a time lag between the end of a calendar quarter and the time that Private Ocean receives and reports the sponsor's price, our quarterly fee may be higher or lower than it would be if invoicing and pricing occurred simultaneously. In a rising market, the invoice would be lower than it would be if the reported price were truly current. In a declining market, the invoice would be higher. Over the entire life of an investment, which is typically 8-10 years or more, asset management fees on non-liquid investments should approximate fees that would be charged if pricing were truly current.

The client's investment management fee to Private Ocean is determined in accordance with its standard fee structure, with exceptions negotiated on a case-by-case basis at the Firm's discretion. Any deviations from the standard fee structure are based upon a number of factors including the amount of work involved, the amount of assets placed under management and the attention needed to manage the account.

Private Ocean's annual fee schedule for new clients is provided below:

Value of Account Assets	Annual Percentage Advisory Fee	
Up to \$2 million	The marginal percentage is	1.00%, plus
\$2 million to \$5 million	The marginal percentage is	0.85%, plus
\$5 million to \$10 million	The marginal percentage is	0.55%, plus
\$10 million and above	The marginal percentage is	0.25%.

Services provided for the above fees are for investment advice or consultation and regular reporting of asset holdings, valuations and performance reviews. Brokerage commissions and/or transaction fees, custodial charges and asset specific fees such as those charged by mutual funds, exchange traded funds, and money market funds for fund management/administration are not included in the above fees.

Existing clients are billed quarterly in arrears or quarterly in advance (depending on their original management agreement with the Firm). All new clients as of May 1, 2009, are invoiced quarterly in advance.

Clients customarily authorize Private Ocean to deduct its quarterly investment advisory fee directly from the client's custodial account. This authorization is granted under the terms of the client's signed investment management agreement and the client's instructions to the custodian. It is the client's responsibility to verify the accuracy of the fee calculation, as the custodian does not determine whether the fee is properly calculated. Any discrepancy in fees should be communicated immediately to Private Ocean within 30 days of the billing date.



### **Third Party Separate Account Managers**

For some Private Ocean clients, account assets may be placed with third party separate account managers for investments. As part of the investment advisory process, Private Ocean compares costs and benefits of separate account investments and mutual funds before making a recommendation to a client.

In the past, Private Ocean has primarily selected separate account managers from lists provided by Charles Schwab. However, Private Ocean has and may in the future conduct independent due diligence on separate account providers not provided by Schwab. If transaction-based pricing is applied, custodians charge standard transaction fees for trading. If asset-based pricing is applied, custodians charge custody and brokerage fees, on a sliding scale, that are in addition to management fees charged by separate account managers. Private Ocean determines whether transaction-based or asset-based pricing is suitable for the client's account based on separate account provider, ABP fee schedules, account size, anticipated turnover, and myriad other factors. Thus the cost of investing in a separate account through Private Ocean has three components: Private Ocean's investment advisory fees, money management fees charged by the separate account manager, and the custodian's fees. Depending on the size of the investment and the separate account manager, total costs for separate account investing through Private Ocean may be higher than investing in index mutual funds. However, the benefit of tax loss harvesting may outweigh any fee differential.

### **Fees Earned or Refunded upon Termination of Agreement**

Private Ocean or Client may terminate the Investment Management Agreement at any time, upon written notice to Private Ocean. Any earned fees owed to Private Ocean will be paid from the client's account on a pro rata basis determined on the amount of time expired in the calendar quarter. Any unearned investment management fees owed to the client will be refunded on a pro rata basis determined on the amount of time remaining in the calendar quarter.

Private Ocean does not provide clients advice as to the tax deductibility of its advisory fees. Clients are directed to consult a tax professional to determine the potential tax deductibility of the payment of advisory fees.

### **Financial Planning Fees**

Initial client engagements are subject to a one-time Comprehensive Financial Plan Setup Fee ranging from \$2,500 to \$15,000. This fee is to compensate Private Ocean for extraordinary time and expenses associated with initial analysis, generation and presentation of financial planning alternatives, and set up for data management. Fees are payable up front upon signing the





Financial Planning Agreement and refunds are negotiable any time (and for any reason) prior to the presentation of the final implementation plan, which is typically 30 to 60 days after entering into the financial planning agreement.

### **Compensation for Individual Financial Consultations**

Private Ocean charges hourly fees at the rate of \$250 - \$350 per hour. This is agreed upon in advance by Private Ocean and the requesting client. One-half of the estimated fees are due upon signing of the contract, and the other half upon completion of the consultation. For a contract terminated by the client before the consultation is completed, fees are refundable, less hourly charges for time already incurred plus expenses. If written advice has been completed, the fee is not refundable.

### **GENERAL FEE DISCLOSURE**

Private Ocean believes its fees are competitive with those fees charged by other investment advisors for comparable services. However, comparable services may be available from other sources for lower fees than those charged by Private Ocean. All fees are negotiable at Advisor's sole discretion subject to the particular circumstances of each client.

### **CUSTODIAN AND BROKERAGE FEES**

Clients incur certain charges imposed by their custodians and other third parties such as 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. Additionally, clients incur charges by the executing broker-dealer in the form of brokerage commissions and transaction fees on the investment transactions entered into for their account(s). All of these charges, fees and commissions are in addition to Advisor's investment management fee.

### **FUND EXPENSE DISCLOSURES**

Mutual funds, closed-end funds, exchange traded funds and alternative investment funds are investment vehicles and the investment strategies, objectives and types of securities held by such funds vary widely. In addition to the advisory fee charged by Private Ocean, clients indirectly pay for the expenses and advisory fees charged by the funds in which their assets are invested.

All such funds incur operating expenses in connection with the management of the fund. Investment funds pass some or all of these expenses through to their shareholders (the individual investors in the funds) in the form of management fees. The management fees charged vary from fund to fund. In addition, funds charge shareholders (individual investors in the funds) other types of fees such as early redemption or transaction fees. These charges also vary widely



among funds. As a result, clients still pay management fees and other, “indirect” fees and expenses as charged by each mutual fund (or other fund) in which they are invested.

Clients are provided a copy of a fund prospectus for each fund in which they invest by their custodian or by the fund sponsor rather than by Private Ocean. As required by law, a prospectus represents the fund’s complete disclosure of its management and fee structure. In addition, a fund’s prospectus can be obtained directly from the fund.

### **BOND EXPENSE DISCLOSURE**

Clients whose assets are invested in bonds purchased directly from an underwriter or on the secondary market may pay a sales credit or sales concession on the trade (in lieu of a sales commission) ranging from 0% - 2% of the par value of the bond. The client’s custodian may also impose a fee on the transaction as well.

### **3. PERFORMANCE-BASED FEES**

No part of Private Ocean LLC’s investment management fee is based upon capital gains, income, or the capital appreciation of assets.

### **4. TYPES OF CLIENTS**

The Firm may provide (or offers to provide) investment management and other financial planning services to its clients, which include high net worth individuals, trusts and estates, pensions and profit sharing plans, 401(k) plans, corporations and other business entities.

#### **Minimum Account Size**

The minimum for new investment advisory relationships is \$2,000,000 of investment capital. Private Ocean’s minimum annual fee is \$20,000. However, Private Ocean, in its sole discretion, may waive its asset or fee minimum fee and/or charge a lesser investment management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.). Private Ocean may provide financial planning or other financial consultations on a fee basis without regard to the client’s asset base (See Item 1, above.)

### **5. METHODS OF ANALYSIS, INVESTMENT STRATEGIES, RISK OF LOSS**

#### **METHODS OF ANALYSIS & INVESTMENT STRATEGY**



Private Ocean relies on academic studies, including those conducted by Nobel prizewinner William Sharpe (Stanford University), Eugene Fama (University of Chicago), and Kenneth French (Dartmouth University). Basing investment strategies primarily on research results, Private Ocean assembles equity portfolios that are globally diversified, and consist primarily of index or passive/structured funds. The equity component of a portfolio normally includes both value and growth stocks but has a value tilt, and contains small, mid, and large company stocks of both domestic and foreign issuers. The equity component of a portfolio also typically has a higher than global market capitalization allocation to small and micro-cap stocks (i.e., small tilt). Where a suitable index or passive fund is not available, Private Ocean selects an actively managed fund that invests exclusively in securities within a single asset class, and that has a competitive expense ratio and turnover rate. The fixed income component of a portfolio typically consists of taxable or municipal bond funds, which hold primarily short and intermediate-term securities. Bond funds may be passive or actively managed, but always have competitive price ratios and turnover rates.

Other investment strategies used to implement investment advice include the techniques of dollar cost averaging and value averaging.

### **Other Sources of Information**

Private Ocean performs thorough due diligence, reviewing offering materials and documents, frequently contacting investment sponsors by telephone, and occasionally making field trips. Several members of the staff attend practice management seminars and annual meetings sponsored by Charles Schwab, Pershing, Dimensional Fund Advisors, the Financial Planning Association and others at which macro-economic conditions, investment strategies, and specific investment products are discussed. Numerous investment, tax and financial planning publications are subscribed to as well as detailed information provided by product sponsors. Examples of publications include The Wall Street Journal, Financial Planning Magazine, Journal of Taxation, Investor's Business Daily, Journal of Estates and Trusts and the Journal of Financial Planning.

### **INVESTMENT RISKS**

All securities investments carry risk, including the risk that an investor may lose a part or all of his or her initial investment. Here are some of the general risks associated with parts of our investment strategy:

**Short-term Purchases** – On occasion, generally only for tax management purposes, we may determine to buy or sell securities in a client's account and hold them for less than a year. Some of the risks associated with short-term trading that could affect investment performance are



increased commissions and transaction costs to the account and increased tax obligations on the gains in a security's value.

**Bond Pricing** – The price of bonds depends in part on the current rate of interest. Rising interest rates decrease the current price of bonds because current purchasers require a competitive yield. As such, decreasing interest rates increase the current value of bonds with associated decrease in bond yield. We may decide to exchange to a lower or higher duration bond or to another asset class due to interest rate risk that could affect investment performance.

**Inflation** - Inflation is the loss of purchasing power through a general rise in prices. If an investment portfolio is designed for current income with a real rate of return of 4% and inflation were to rise to 5% or higher, the account would result in a loss of purchasing power and create a negative real rate of return.

**Price Fluctuation** - Security prices do fluctuate (except for cash or cash equivalents) and clients must accept that risk associated with the fluctuations or change to a more appropriate investment portfolio in alignment with their risk tolerance.

**Reinvestment of Dividends** – We will reinvest interest, dividends and capital gains as appropriate to accumulate wealth based on factors such as ongoing cash needs and tax loss harvesting opportunities. This is an appropriate strategy for a portfolio designed for capital growth. However, the reinvested earnings could result in a lower or a higher rate of return than was initially projected.

**Mutual Funds with Foreign Asset Holdings** – Any investments in mutual funds that make foreign investments and are not hedged back to the U.S. Dollar are subject to the uncertainty with changes in the foreign currency value. The client may bear more risk and may earn a substantially higher return or a substantially lower return than projected.

**Margin Trading** – Private Ocean does not advocate leverage as a part of its investment strategy. In rare cases, and generally only for short term financing considerations, clients may elect to assume a margin balance on their investment account. Schwab requires a percentage of assets under management to be pledged as collateral for the margin amount. Clients risk that in a falling market, the pledged collateral will be insufficient to cover a margin call by Schwab. Consequently, all margin decisions are left to the client.

**Option Trading** – Certain Private Ocean clients engage in option trading. Option securities are complex derivatives of equity securities that incorporate certain leverage characteristics and as such carry an increased risk of investment loss.



**Alternative Asset Classes** – Many alternative investments are illiquid, which means that the investments can be difficult to trade. Consequently, such holdings may limit a client's ability to dispose of such investments in a timely manner and at an advantageous price.

**Private Investment Funds** – These types of investments generally involve various risk factors and liquidity constraints, a complete discussion of which is set forth in each fund's offering documents, which are provided (either by Private Ocean or by the fund sponsor) to each client for review and consideration. Each prospective client investor generally is required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

**Private Equities** – We may purchase or recommend the inclusion of shares in non-publicly traded equities in the accounts of accredited clients. These companies will generally have little available information on their financial status, capital structure or revenues, resulting in increased risk of loss, including total loss. In addition, these securities may be highly illiquid or may experience losses of liquidity – resulting in an inability to sell said equities or sales prices that are substantially below the purchase or market price. Unless otherwise expressly agreed, we will value these positions at their purchase price for any accounting purposes, which may not reflect losses that would be realized if the position was sold. Of particular risk is that the Firm will base its account values for billing purposes on these positions' purchase price (unless another methodology is agreed upon with the client), leading to a potential motivation to overvalue said equities. Finally, we may have clients who are executives of said firms or have other financial relationships that may create conflicts of interest. Where such conflicts exist, the Firm will disclose these conflicts in written format to the clients who hold such securities or whom we intend to purchase such securities under our discretion prior to any transactions.

## **6. DISCIPLINARY INFORMATION**

Private Ocean has no disciplinary history and consequently, is not subject to any disciplinary disclosures.

## **7. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Private Ocean is an independent investment advisor, unaffiliated with any other financial institution or securities dealer or issuer. Although we may recommend that our client's custody their investment accounts at any one of several custodians we have no affiliation with any particular custodian, do not supervise their brokerage activities and are not subject to their supervision.



Although we may refer our clients to other professionals such as attorneys or accountants for estate planning, tax or other matters, neither the Firm nor its principals or employees are affiliated with any law or accountancy firm.

Richard A. Stone is a real estate broker licensed by the California Department of Real Estate. Private Ocean occasionally refers clients to mortgage brokers for financing or refinancing home mortgages. Less than 5% of Mr. Stone's time is devoted to real estate.

Gregory H. Friedman is a member of the loan committee for real estate loan partnerships managed by Marin Mortgage Bank ("MMB Funds"). Mr. Friedman does not receive compensation for acting in this capacity; he acts in this capacity for the benefit of the Private Ocean clients invested in the MMB Funds. Private Ocean may recommend that certain of its clients invest a portion of their assets in MMB Funds to the extent their individual financial circumstances and risk tolerances render such investment suitable for them. Due to Mr. Friedman's position on the Board, Private Ocean may be viewed as having a conflict of interest in making such recommendations although the Firm does not receive referral fees for making such recommendations.

Frank J. Jones has been a member of the Board of Directors of the International Securities Exchange (ISE) since 2000.

### **Products & Services Other Than Investment Advice**

In the financial planning process, Private Ocean reviews existing insurance policies, and if appropriate recommends supplemental coverage. Of Private Ocean's total time, approximately 2% is devoted to insurance reviews.

### **Other Businesses**

Gregory H. Friedman is the President and co-owner of CRM Software, Inc., a software development company specializing in financial planning software. Mr. Friedman spends approximately 50% of his time in this capacity.

Mr. Friedman is also the owner/manager of Your Silver Bullet LLC, a software integration company. Mr. Friedman spends approximately 2% of his time acting in this capacity.

## **8. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Trading Securities Also Recommended to Clients**



Private Ocean and/or its employees (collectively, “Private Ocean”) may personally invest in the same securities that are purchased for clients and may own securities of issuers whose securities are subsequently purchased for clients. Private Ocean does not use such personal trading as an inducement to clients to purchase specific funds or other investments, and recommendations are made strictly on the basis of each client’s own resources, objectives and risk tolerance. If an issue is purchased or sold for clients and Private Ocean on the same day, the clients and Private Ocean shall pay or receive the same price, or the clients shall receive the more favorable price. Private Ocean may also buy or sell a specific security for its own account based on personal investment considerations aside from company or industry fundamentals, which it does not deem appropriate to buy or sell for clients.

It is Private Ocean policy that recommended investment opportunities are offered first to the Firm’s clients before the Firm or its employees may act on them. Firm employees are subject to personal investment account trade reporting designed to ensure that no Firm client is disadvantaged in any respect by the personal investment transactions of an employee. The policy requires prior supervisory clearance of certain trades, the Firm’s receipt of certain trade confirmations and account statements for all employee investment accounts and specifically prohibits trading on the basis of inside information and trading ahead of customer orders (front-running).

Any person who violates any of the Firm’s employee personal trading, insider trading, conflicts of interest or other code of ethics policy or procedures would be disciplined by the Firm and subject to any of the following sanctions, among others not listed:

- Cancellation of trades
- Disgorgement of profits
- Orders to sell positions, even at a loss
- Fines
- Termination of employment
- Reporting to regulatory authorities to the extent required by law

A copy of Private Ocean’s employee trading policies and code of ethics is made available to clients and prospective clients upon request.

## **9. BROKERAGE PRACTICES**

### **RECOMMENDATION OF CUSTODIAN AND EXECUTING BROKER**





Private Ocean may recommend that clients establish brokerage accounts with Schwab's Institutional division or Pershing Advisor Solutions to maintain custody of clients' assets and to effect trades for their accounts. Both Schwab and Pershing are registered broker-dealers and members of SIPC. Private Ocean is independently owned and operated and not affiliated with Pershing or Schwab. Both Pershing and Schwab provide Private Ocean with access to its institutional trading and custody services, which typically are not available to retail investors. These services generally are available to independent investment advisers on an unsolicited basis and are not otherwise contingent upon Private Ocean committing any specific amount of business (in the form of either assets in custody or trading). Schwab's and Pershing's services include brokerage, custody, research and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For client accounts maintained at Schwab or Pershing, the custodians generally do not charge separately for custody (except for separate accounts) but are compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through their brokerages or that settle into accounts under their custody. Pershing and Schwab also receive a trade away fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through other broker-dealers. These trade away fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Thus, Private Ocean may have an incentive to cause trades to be executed through the custodial broker-dealer rather than another broker-dealer. Private Ocean nevertheless acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Pershing or Schwab may be executed through a broker-dealer different than that of Private Ocean's other clients. Thus, trades for accounts custodied at Pershing or Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

Schwab and Pershing also make available to Private Ocean other products and services that benefit Private Ocean but may not benefit its clients. Some of these other products and services assist Private Ocean in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of Private Ocean's fees from its clients' accounts; and assist with back-office functions, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of Private Ocean's accounts, including accounts not maintained at Schwab or Pershing.





Schwab and Pershing also make available to Private Ocean other services intended to help Private Ocean manage and further develop its business. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, they may make available, arrange and/or pay for these types of services to Private Ocean by independent third parties. Either Pershing or Schwab may discount or waive fees it otherwise would charge for some of these services or pay all or a part of the fees of a third-party providing these services to Private Ocean. Private Ocean's recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefit to Private Ocean of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab or Pershing, which may create a potential conflict of interest.

Many clients, when undertaking an advisory relationship, already have a pre-established relationship with a broker and instruct Private Ocean to execute all transactions through that broker. If a client directs Private Ocean to use a particular broker-dealer, under those circumstances Private Ocean does not have authority to negotiate commissions or obtain volume discounts, and best execution may not be achieved. In addition, under these circumstances a disparity in commission charges may exist between the commissions charged to other clients.

## **DIRECTED BROKERAGE**

In a limited number of cases, clients may direct Private Ocean to place all orders for securities transactions with a specific broker-dealer (directed brokerage). In these cases, Private Ocean is not obligated to, and generally does not solicit competitive bids for each transaction or seek the lowest commission rates for the client. As such, the client may pay higher commission costs, higher security prices and transaction costs than it otherwise would have had it not directed Private Ocean to trade through a specific broker. In addition, the client may be unable to obtain the most favorable price on transactions executed by Private Ocean as a result of Private Ocean's inability to aggregate/bunch the trades from this account with other client trades.

Furthermore, the client may not be able to participate in the allocation of a security of limited availability (such as an IPO) for various reasons, including if those new issue shares are provided by another broker or dealer. As a result of the special instruction, Private Ocean may not execute client securities transactions with brokers that have been directed by clients until non-directed brokerage orders are completed. Accordingly, clients directing brokerage may not generate returns equal to clients that do not direct brokerage.

Due to these circumstances, there may be a disparity in commission rates charged to a client who directs Private Ocean to use a particular broker and performance and other differences from other similarly managed accounts. Clients who direct brokerage should understand that similar



brokerage services may be obtained from other broker-dealers at lower costs and possibly with more favorable execution.

## **BEST EXECUTION POLICY**

When Private Ocean places orders for the execution of transactions, it attempts to act in the best interests of its clients, using its best faith judgment. In this process, Private Ocean allocates transactions to certain broker-dealers for execution on certain markets at certain prices and commission rates. In making decisions on these issues, Private Ocean recognizes that in the selection of broker-dealers, the available prices and commission rates are important factors but not the only factors that should be considered. Other factors include, without limitation:

- Execution capabilities and research;
- Custodial and other services expected to enhance the general portfolio management capabilities of Private Ocean;
- Transaction size;
- Difficulty of execution;
- Operational facilities;
- The risk in positioning a block of securities;
- The overall quality of brokerage and research services; and
- The value of the ongoing operational relationship between Private Ocean and the broker-dealer.

Such factors may not have a direct benefit to a specific client, but we believe them to be a benefit to clients on average.

Research services provided by broker-dealers include economic forecasts, investment strategy advice, fundamental and technical advice on individual securities, valuation advice and market analysis on a global basis. Private Ocean cannot readily determine the extent to which commissions charged by brokers reflect the value of their research services, but brokers occasionally suggest a level of business they would like to receive in return for the brokerage and research services they provide. To the extent that research services of value are provided by brokers, Private Ocean may be relieved of expenses they might otherwise bear. In some cases, research services are generated by third parties but are provided to Private Ocean by or through brokers.

Because of the services provided, Private Ocean may pay a brokerage commission in excess of that which another broker may have charged for effecting the same transaction, if Private Ocean determines in good faith that such amount is reasonable in relation to the terms of either the



particular transaction or Private Ocean's overall responsibilities with respect to its clients' accounts.

## **SOFT DOLLAR ARRANGEMENTS AND POTENTIAL CONFLICTS**

Private Ocean's consideration of the value of these factors generally are subject to the criteria for availability of the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934 and, subject to those criteria (particularly, Private Ocean's determination that the commissions are reasonable in light of all the brokerage and other products and services provided), in some cases commissions paid to a particular broker-dealer may exceed amounts another broker-dealer might charge.

Research products and services provided to Private Ocean may include research reports on particular industries and companies, economic surveys, data and analyses, recommendations as to specific securities, financial publications, and other products or services that provide lawful and appropriate assistance to Private Ocean in the performance of its decision-making responsibilities. Private Ocean generally uses such products and services to service all of Private Ocean's accounts, sometimes including accounts other than those that pay commissions to the broker-dealer providing the products or services.

Although it does not currently do so, or contemplate doing so, in the future Private Ocean could also receive and use other types of products and services both to assist Private Ocean in making investment decisions for clients and for other purposes. If that were to occur, Private Ocean would make a reasonable allocation of the cost so that Private Ocean's clients would bear only the cost of the services used in making investment decisions and Private Ocean would bear the cost of the services used for other purposes, unless after adequate disclosure clients approve use of their commission dollars for additional uses. Clients should recognize that Private Ocean's interest in making such an allocation would differ from clients' interests in that Private Ocean would have an incentive to designate as great a portion of such cost as assisting Private Ocean in making investment decisions as possible in order to minimize the portion that must be paid by Private Ocean directly.

Private Ocean periodically considers the amount and nature of the research products and services provided by brokers as well as the extent to which such products and services are relied upon, and attempts to allocate a portion of its brokerage business on the basis of that consideration. In addition, broker-dealers sometimes suggest a level of business they would like to receive in return for the various services they provide. Actual brokerage business received by any broker-dealer may be less than the suggested allocations, but may be expected to exceed the suggestions, because total brokerage is allocated on the basis of all the considerations described above. A broker-dealer is not precluded from receiving business simply because it has not been



identified as providing research products and services, although Private Ocean may not be willing to pay the same commission to such broker as Private Ocean would have paid had the broker provided research products and services.

## **AGGREGATION OF TRADES AND POTENTIAL CONFLICTS**

Private Ocean generally does not aggregate securities transactions for multiple client accounts. However, circumstances may arise where the portfolio manager determines that aggregation is consistent with the Firm's duty to seek best execution and is consistent with the investment objectives and guidelines for the client accounts participating in the trade.

On the very rare occasion when orders are aggregated, the price paid by each account is the average price of the order. Transaction costs are allocated to each client on a *pro rata* basis, based upon the ratio of the amount of particular issue of securities allocated to the account to the overall amount of that issue purchased. Trades are not allocated in any manner that favors one group of similarly-situated clients over another. Client transactions may be aggregated according to custodial relationship in consideration of execution charges that may be imposed if trades are directed to a non-custodial broker-dealer for execution. Aggregated trades placed with different brokers may be priced differently.

## **ALLOCATION OF OPPORTUNITIES AND POTENTIAL CONFLICTS**

Because we manage more than one client account, there may be a conflict of interest related to the allocation of investment opportunities among all accounts managed by the Firm. We attempt to resolve all such conflicts in a manner that is generally fair to all of clients over time. We may give advice and take action with respect to any of our clients that may differ from advice given or the timing or nature of action taken with respect to any other client based upon individual client circumstances. It is our policy, to the greatest extent practicable, to allocate investment opportunities over a period of time on a fair and equitable basis relative to all clients. The Firm is not obligated to acquire for any client account any security that the Firm or its owners, officers, employees or affiliated persons may acquire for their own accounts or for the account of any other client, if in the discretion of the portfolio managers, based upon the client's financial condition and investment objectives and guidelines, it is not practical or desirable to acquire a position in such security for that account.

## **10. REVIEW OF ACCOUNTS**

### **Account Review**

A face-to-face meeting or conference call with each client occurs at least once a year, and the client's account is formally reviewed in preparation for the meeting. If, due solely to the



client's schedule we are unable to conduct a face-to-face meeting or call during the year, we will provide recommendations to the client by mail or email, will seek approval for any structural changes in portfolio, and will subsequently conduct rebalancing/portfolio management per the client's asset allocation model. Accounts are also frequently reviewed on an informal basis in connection with deposits to or withdrawals from accounts, major market movements that we feel may affect our accounts, and in the course of unscheduled telephone conferences with clients.

Reviews are conducted by a qualified staff person and may include the Chief Investment Officer; the Chief Executive Officer; the President, the Chief Compliance Officer and the Wealth Advisors. The Wealth Advisors are responsible for coordinating the reviews (under the supervision of the Chief Investment Officer, Chief Executive Officer and the President, and are responsible for an average of approximately 60 clients each. The reviews encompass performance of individual positions and portfolios, as well as asset allocations relative to targets or other client goals.

All investment supervisory clients are advised that it remains their responsibility to advise the Firm of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with the Firm on an annual basis.

### **Client Reporting**

Reports are furnished weekly to clients in electronic format, on the Private Ocean web site, showing (at a minimum) the amount originally invested, current value of investment assets, gains and losses relative to beginning values, and compounded rates of return for the portfolio.

Clients also receive the Private Ocean Newsletter covering global asset class performance, special investment or financial planning topics, & administrative matters.

Mr. Stone, Mr. Friedman, or their designees also meet personally or via telephone with each client at least once a year, on the approximate anniversary date of their last review, to present a formal review.

## **11. CLIENT REFERRALS AND OTHER COMPENSATION**

### **Payment of Referral Fees**

Private Ocean receives client referrals from Charles Schwab & Co., Inc. ("Schwab") through Private Ocean's participation in Schwab Advisors Network ("the Service"). The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with Private Ocean. Schwab does not supervise Private Ocean



and has no responsibility for Private Ocean management of clients' portfolios or Private Ocean's other advice or services. Private Ocean pays Schwab fees to receive client referrals through the Service. Private Ocean's participation in the Service may raise potential conflicts of interest described below.

Private Ocean pays Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian and Private Ocean remains the investment advisor for the account. The Participation Fee paid by Private Ocean is either a percentage of the value of the assets in the client's account or a percentage of the investment management fees associated with the account. Private Ocean pays Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to Private Ocean quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by Private Ocean and not by the client. Private Ocean has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs Private Ocean charges clients with similar portfolios who were not referred through the Service.

Private Ocean generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from, Schwab. This fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees Advisor generally would pay in a single year. Thus, Private Ocean will have an incentive to recommend that a referred client's accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees are based on assets in accounts of Private Ocean's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, Private Ocean has an incentive to encourage household members of clients referred by Schwab to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit Private Ocean's fees directly from the accounts.

On occasion Private Ocean receives referrals from other registered investment advisors. In these situations Private Ocean may share fees with the referring investment advisor. Referred clients are not charged any fees or costs greater than the Private Ocean charges its advisory clients who were not referred by another investment advisor. Any client subject to a fee-sharing arrangement will be notified in advance of executing an investment management agreement with Private Ocean.

Private Ocean may also employ third party marketing solicitors to whom it pays cash or a portion of the advisory fees paid by clients referred to it by those solicitors. In such cases, this practice



is disclosed in writing to the client and Private Ocean complies with the other requirements of Rule 206(4)-3, under the Investment Advisers Act of 1940, as amended.

## **12. CUSTODY OF CLIENT ASSETS**

Private Ocean does not maintain physical custody of client funds or securities. Clients are required to set up their investment accounts with a “qualified custodian,” namely a broker dealer, bank or trust company. Private Ocean is unable to take even temporary possession of client assets for the purpose of transferring them to the client’s account. Each client has a direct relationship with their custodian and is responsible for making deposits to and withdrawals from their account as necessary. The Firm is given the authority to receive payment of its management fees directly from the account, but it is typically not authorized to make any other withdrawals or to transfer money out of the account to a third party. However, occasionally Private Ocean utilizes standing letters of authorization in order to make periodic transfers of assets from accounts to third parties (e.g., for private placement capital calls). Such accounts are subject to annual surprise audits by an independent accounting firm as required under the SEC’s “custody rule”.

Private Ocean recommends that clients create their investment accounts at Schwab or Pershing because they are broker-dealers that are regulated by the Financial Industry Regulatory Authority (“FINRA”) and participate in the Securities Investors Protection Corporation (“SIPC”) insurance fund. (See also, Item 9 Brokerage Practices, above.)

Schwab and Pershing (or other utilized custodians) obligate themselves to send account statements directly to the client (or to an independent third party representative designated by the client), no less than quarterly, showing all funds and securities held, their current value and all transactions executed in the client’s account, including the payment to Private Ocean of its investment management fees.

We update client reports on our web site weekly, showing the current asset allocation of the account and a summary of assets held in the account. Clients are advised to regularly compare the assets and holdings listed on their Private Ocean account report with those listed on the custodian’s account statements.

## **13. INVESTMENT DISCRETION**

Under the terms of its investment management agreement, Private Ocean has discretionary authority over most client accounts. Private Ocean exercises this discretion via Limited Power of Authority of accounts held at the client’s custodian. However, a formal investment plan (IP) is presented to each new client for review and signature before any trades are placed, and a





typical plan specifies types of investments, percentage allocations, and estimated fees and taxes. Ongoing discretion is limited to trades within the asset allocation target under the current IP or most recent annual review. Clients must approve changes to target allocations. For the limited number of non-discretionary accounts that we currently manage, clients must additionally approve individual trade recommendations within accounts.

#### **14. VOTING CLIENT SECURITIES**

It is Private Ocean policy not to vote proxy solicitations received on behalf of clients from the issuers of securities held in client's account.

#### **15. STATEMENT OF FINANCIAL CONDITION**

Private Ocean does not require or solicit prepayment of its management fees from clients six or more months in advance. There are no adverse conditions related to the Firm's finances that are likely to impair its ability to meet its contractual commitments to its clients. The Firm has not been the subject of a bankruptcy filing in the last ten years.