



PRIVATE  
OCEAN

**ITEM 1      COVER PAGE**

**PRIVATE OCEAN, LLC**

SEC File Number: 801-20857

Contact: Justin Hult, Chief Compliance Officer

750 Lindero Street, Suite 130

San Rafael, CA 94901

[www.privateocean.com](http://www.privateocean.com)

Tel: 415.526.2900

Fax: 415.459.3956

**ADV Part 2A, Firm Brochure**

**Dated: November 26, 2013**

This brochure provides information about the qualifications and business practices of Private Ocean, LLC (“Private Ocean”). 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 (“SEC”) or by any state securities authority.

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

References herein to Private Ocean as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.



## **ITEM 2 MATERIAL CHANGES**

Since the last Annual Amendment Filing on March 28, 2013, Private Ocean's ADV Part 2A Firm Brochure has been amended at the following sections:

1. Item 14 - to reflect that Private Ocean no longer receives ongoing referrals through the Schwab Advisors Network and does not presently utilize a solicitor for client referrals; and
2. Item 15 – to clarify that Private Ocean engages in other practices that require disclosure on Form ADV Part 1, Item 9, (the Custody section).

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#### **ITEM 4      ADVISORY BUSINESS**

A. Private Ocean is a limited liability company formed in May 2009 in the State of California. Private Ocean became registered as an Investment Adviser Firm with the SEC in January 1983 (as Salient Financial Corp.). Private Ocean's principal owners are Salient Financial Corp., and Wealth Management Advisors, Inc.

B. As discussed below, Private Ocean offers discretionary and/or non-discretionary investment advisory services to its clients, and, to the extent specifically requested by a client, financial planning and related consulting services. Private Ocean's clients include: individuals, high net worth individuals, pensions and profit sharing plans, and charitable organizations.

##### **INVESTMENT ADVISORY SERVICES**

Through its financial planning process and subsequent client consultations, Private Ocean and its clients agree upon investment objectives, 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. After setting those parameters, Private Ocean offers discretionary and non-discretionary investment advisory services on a negotiable fee basis.

Private Ocean's investment advisory services generally include:

- Gathering 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.
- Establishing an investment policy covering cash needs, asset allocation, dividend policy (cash or reinvest), and alternative investments. In the process, Private Ocean may adjust its investment policy with consideration to the client's securities that are not under Private Ocean's management.
- Selection and acquisition of mutual funds, separate accounts and other investment vehicles that are suitable in light of client investment profile and investment policy.

##### **FINANCIAL PLANNING AND CONSULTING SERVICES**

To the extent specifically requested by a client, Private Ocean provides financial planning services on a negotiable fee basis. Financial plans incorporate a client's current financial circumstances, personal objectives, potential problem areas and available financial options to achieving client's goals. Private Ocean's financial planning services generally fall within one or more of the following areas:



- 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; analysis of capital needs for retirement and long term care issues.
- 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.
- 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.
- 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.
- 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.

#### MISCELLANEOUS DISCLOSURES

Non-Investment Consulting/Implementation Services. To the extent requested by the client, Private Ocean *may* provide consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. Neither Private Ocean, nor any of its representatives, serves as an attorney or accountant and no portion of Private Ocean's services should be construed as same. To the extent requested by a client, Private Ocean may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance, etc.), including certain of Private Ocean's representatives in their individual capacities registered and/or licensed capacities as discussed below. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from Private Ocean. Please Note: If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional.

Please Also Note: It remains the client's responsibility to promptly notify Private Ocean if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/ evaluating/revising Private Ocean's previous recommendations and/or services.



Please Note: Non-Discretionary Service Limitations. Clients that determine to engage Private Ocean on a non-discretionary investment advisory basis must be willing to accept that Private Ocean cannot effect any account transactions without obtaining prior verbal consent to any such transaction(s) from the client. Thus, in the event of a market correction during which the client is unavailable, Private Ocean will be unable to effect any account transactions (as it would for its discretionary clients) without first obtaining the client's verbal consent.

Please Note: Cash Positions. All cash positions (money markets, etc) may be included as part of assets under management for purposes of calculating Private Ocean's advisory fee. Please Further Note: When the account is holding cash positions, those cash positions will be subject to the same fee schedule as set forth below. Private Ocean's Chief Compliance Officer, Justin Hult, remains available to address any questions that a client or prospective client may have regarding the above fee billing practice.

Independent Managers. Private Ocean may allocate (and/or recommend that the client allocate) a portion of a client's investment assets among unaffiliated independent investment managers in accordance with the client's designated investment objective(s). In such situations, the *Independent Manager[s]* shall have day-to-day responsibility for the active discretionary management of the allocated assets. Private Ocean shall continue to render investment advisory services to the client relative to the ongoing monitoring and review of account performance, asset allocation and client investment objectives. Factors which Private Ocean shall consider in recommending *Independent Manager[s]* include the client's designated investment objective(s), management style, performance, reputation, financial strength, reporting, pricing, and research.

Private Investment Funds. Private Ocean may provide investment advice regarding unaffiliated private investment funds. Private Ocean's role relative to the private investment funds shall be limited to its initial and ongoing due diligence and investment monitoring services. If a client determines to become a private fund investor, the amount of assets invested in the fund(s) shall be included as part of "assets under management" for purposes of Private Ocean calculating its investment advisory fee.

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.



Private Ocean's clients are under absolutely no obligation to consider or make an investment in a private investment fund(s).

Please Note: Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Unlike liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective client investor will be 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.

Please Also Note: Valuation. In the event that Private Ocean references private investment funds owned by the client on any supplemental account reports prepared by Private Ocean, the value(s) for all private investment funds owned by the client shall reflect the most recent valuation provided by the Fund Sponsor. If no subsequent valuation post-purchase is provided by the Fund Sponsor, then the valuation shall reflect the initial purchase price (and/or a value as of a previous date), or the current value(s) (either the initial purchase price and/or the most recent valuation provided by the Fund Sponsor). If the valuation reflects the initial purchase price (and/or a value as of a previous date), then the current value(s) (to the extent ascertainable) could be significantly more or less than original purchase price. The client's advisory fee shall be based upon the reflected fund value(s).

Client Obligations. In performing its services, Private Ocean shall not be 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 his/her/its responsibility to promptly notify Private Ocean if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/ evaluating/ revising Private Ocean's previous recommendations and/or services.

Disclosure Statement. A copy of Private Ocean's written Brochure as set forth on Part 2A of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Advisory Agreement or Financial Planning and Consulting Agreement*.

C. Private Ocean will tailor its investment advisory services specific to the needs of each client, as discussed under Item 4B above. The client may impose reasonable restrictions upon Private Ocean's services at any time by providing the same in writing.

D. Private Ocean does not participate in a wrap fee program.

E. As of December 31, 2012, Private Ocean had \$731,256,163 in assets under management on a discretionary basis and \$24,836,651 in assets under management on a non-discretionary basis.



## ITEM 5 FEES AND COMPENSATION

A. Private Ocean offers its services on a negotiable fee basis.

### INVESTMENT ADVISORY FEES

If a client engages Private Ocean to provide discretionary and/or non-discretionary investment advisory services, the annual investment advisory fee will be generally based upon a percentage (%) of the market value and type of assets placed under Private Ocean's management (between .25% and 1.00%) as follows:

<u>Market Value of Portfolio</u>	<u>Annual Fee</u>
Up to \$2 million	1.00%
Between \$2 million and \$5 million	0.85%
Between \$5 million to \$10 million	0.55%
Above \$10 million	0.25%.

Private Ocean's annual investment advisory fee shall be prorated and paid quarterly in advance, based upon the market value of the assets on the last business day of the previous quarter. Clients may elect to have Private Ocean's advisory fees deducted from their custodial account. Both Private Ocean's *Investment Advisory Agreement* and the custodial/clearing agreement may authorize the custodian to debit the account for the amount of the Private Ocean's investment advisory fee and to directly remit that management fee to Private Ocean in compliance with regulatory procedures. In the limited event that Private Ocean bills the client directly, payment is due upon receipt of Private Ocean's invoice. Private Ocean shall deduct fees and/or bill clients quarterly in advance, based upon the market value of the assets on the last business day of the previous quarter.

### SEPARATE ACCOUNT FEES

Separate account investment through Private Ocean can include three component costs: (1) Private Ocean's investment advisory fees (discussed above); (2) custodial fees; and (3) money management fees charged by the separate account manager.

If the custodial fees are transaction-based, clients pay standard transaction fees to the custodian for each trade. If the custodial fees are asset-based, clients pay sliding scale custody and brokerage fees to the custodian. Private Ocean therefore works with the client to determine whether transaction-based or asset-based pricing is suitable for the client's account based on separate account provider, asset based fee schedules, account size, anticipated turnover, and other factors.

Separate account managers also charge management fees in addition to the above. Private Ocean primarily recommends separate account managers approved by Charles Schwab and Co., Inc. ("Schwab") and/or Pershing Advisor Solutions ("Pershing"), but periodically investigates other separate account managers to determine whether it could secure better qualitative pricing for its





clients from other sources. In doing so, Private Ocean considers, among other factors: the full range and quality of the services offered, the execution capability, the rates charged, the manager's level of service, the manager's financial responsibility, and the manager's responsiveness to Private Ocean. **Please Note:** Depending on the size of the investment and the selected separate account manager, total costs for separate account investing through Private Ocean may be higher than investing in index mutual funds. In such a case, Private Ocean attempts to place separate account investments in which the benefit of tax loss harvesting outweighs any index mutual fund fee differential.

## **FINANCIAL PLANNING AND CONSULTING 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, depending upon the level and scope of service(s) required and the professional rendering the service(s). This fee generally computes to an average of \$250-\$350 per hour, which 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. This fee is negotiable and payable in full upon signing a Financial Planning Agreement. If the client terminates the Financial Planning Agreement before the consultation is completed, Private Ocean will issue a prorated refund, deducting fees for time and expenses already incurred. This fee is no longer refundable upon completion of the consultation and/or presentation of written advice to the client, which typically occurs between 30 and 60 days of entering into the Financial Planning Agreement.

### **Individual Financial Consultations:**

Private Ocean rarely charges hourly fees for its services, but may choose to offer individual financial consultations at a negotiable hourly rate of \$250 - \$350 per hour depending upon the level and scope of service(s) required and the professional rendering the service(s). Half of this fee is payable upon signing of a Financial Planning Agreement, and the other half upon completion of the consultation. If the client terminates the Financial Planning Agreement before the consultation is completed, Private Ocean will issue a prorated refund, deducting fees for time and expenses already incurred. This fee is no longer refundable upon completion of the consultation and/or presentation of written advice to the client.

B. Clients may elect to have Private Ocean's investment advisory fees deducted from their custodial account. Private Ocean's *Investment Advisory Agreement* and the custodial/ clearing agreement may authorize the custodian to debit the account for the amount of Private Ocean's investment advisory fee and to directly remit that management fee to Private Ocean in compliance with regulatory procedures. As indicated above, Private Ocean deducts fees and/or bill clients quarterly in advance, based upon the market value of the assets on the last business day of the previous quarter.





C As discussed below, unless the client directs otherwise or an individual client's circumstances require, Private Ocean generally recommends that Schwab and/or Pershing Advisor Solutions ("PAS") serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as Schwab and PAS charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). In addition to Private Ocean's investment advisory fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses). Clients who purchase 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.

D. As stated above, Private Ocean's annual investment advisory fee will be prorated and paid quarterly, in advance, based upon the market value of the assets on the last business day of the previous quarter.

The *Investment Advisory Agreement* between Private Ocean and the client will continue in effect until terminated by either party by written notice in accordance with the terms of that agreement. Upon termination, Private Ocean will refund the pro-rated portion of the advanced advisory fee paid based upon the number of days remaining in the billing quarter.

E. Neither Private Ocean, nor its representatives accept compensation from the sale of securities or other investment products.

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

Neither Private Ocean, nor any of its supervised persons accept performance-based fees.

## **ITEM 7 TYPES OF CLIENTS**

Private Ocean's clients include: individuals, high net worth individuals, trusts and estates, pensions and profit sharing plans, charitable organizations, and other business entities. Private Ocean generally requires a minimum annual fee of \$20,000, and/or a minimum asset value of \$2,000,000. However, Private Ocean may, in its sole discretion, reduce the annual investment advisory fee or asset level based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, the amount of time necessary to manage the assets, related account values, account composition, negotiations with client, etc.).



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

A. 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.

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.

Investing in securities involves risk of loss that clients should be prepared to bear, including the risk that client may lose a part or all of his or her initial investment. The risks associated with Private Ocean's investment strategies are as follows:

- Short-term Purchases. On occasion, generally only for tax management purposes, Private Ocean 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 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 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. Private Ocean 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. Private Ocean 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 Private Ocean 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, Private Ocean 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.

## **ITEM 9      DISCIPLINARY INFORMATION**

Private Ocean has not been the subject of any disciplinary action.

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

A. Neither Private Ocean, nor its representatives, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

B. Neither Private Ocean, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.

C. Gregory H. Friedman, in his individual capacity 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 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. In such circumstances, Mr. Friedman's position on the Board may create a potential conflict of interest. Private Ocean's Chief Compliance Officer, Justin Hult, remains available to address any questions that a client or prospective may have regarding the above potential conflict of interest.



D. Private Ocean does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients

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

A. Private Ocean maintains an investment policy relative to personal securities transactions. This investment policy is part of Private Ocean's overall Code of Ethics, which serves to establish a standard of business conduct for all of Private Ocean's Representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, Private Ocean also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by Private Ocean or any person associated with Private Ocean.

B. Neither Private Ocean nor any related person of Private Ocean recommends, buys, or sells for client accounts, securities in which Private Ocean or any related person of Private Ocean has a material financial interest.

C. Private Ocean and/or representatives of Private Ocean may buy or sell securities that are also recommended to clients. This practice may create a situation in which Private Ocean and/or representatives of Private Ocean are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as "scalping" (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if Private Ocean did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, "front-running" (i.e., personal trades executed prior to those of Private Ocean's clients) and other potentially abusive practices.

Private Ocean has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of Private Ocean "Access Persons". Private Ocean's securities transaction policy requires that an Access Person of Private Ocean must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person's current securities holdings at least quarterly, and once each twelve (12) month period thereafter on a date Private Ocean selects; provided, however that at any time that Private Ocean has only one Access Person, he or she shall not be required to submit any securities report described above.



D. Private Ocean and/or representatives of Private Ocean may buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation in which Private Ocean and/or representatives of Private Ocean are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11 C, Private Ocean has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Private Ocean's Access Persons.

## **ITEM 12      BROKERAGE PRACTICES**

A. In the event that the client requests that Private Ocean recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct Private Ocean to use a specific broker-dealer/custodian), Private Ocean generally recommends that investment management accounts be maintained at Schwab's Institutional Division or with Pershing Advisor Solutions ("Pershing"). Both Schwab and Pershing are registered broker-dealers and members of the Securities Investor Protection Corporation ("SIPC"). Before engaging Private Ocean to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with Private Ocean setting forth the terms and conditions under which Private Ocean will manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that Private Ocean considers in recommending Schwab, Pershing or any other broker-dealer/custodian to clients include historical relationship with Private Ocean, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by Private Ocean's clients shall comply with Private Ocean's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where Private Ocean determines, in good faith, that the commission/transaction fee is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Private Ocean will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Private Ocean's investment advisory fee. Private Ocean's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

1. Research and Additional Benefits. Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, Private Ocean may receive from Schwab and/or Pershing (or another broker-dealer/custodian) without cost (and/or at a discount) support services and/or products, certain of which assist Private Ocean to better monitor and service client





accounts maintained at such institutions. Included within the support services that may be obtained by Private Ocean may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by Private Ocean in furtherance of its investment advisory business operations.

As indicated above, certain of the support services and/or products that may be received may assist Private Ocean in managing and administering client accounts. Others do not directly provide such assistance, but rather assist Private Ocean to manage and further develop its business enterprise.

Private Ocean's clients do not pay more for investment transactions effected and/or assets maintained at Schwab as a result of this arrangement. There is no corresponding commitment made by Private Ocean to Schwab, Pershing or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

Private Ocean's Chief Compliance Officer, Justin Hult, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.

2. Private Ocean previously participated in Schwab Advisors Network referral program. See Item 14.A for details.
3. Private Ocean does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Private Ocean will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Private Ocean. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.





**Please Note:** In the event that the client directs Private Ocean to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through Private Ocean.

Private Ocean's Chief Compliance Officer, Justin Hult, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.

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

A. For those clients to whom Private Ocean provides investment supervisory services, account reviews are conducted on an ongoing basis by Private Ocean's Principals and/or representatives. In fact, Private Ocean's Principals or representatives conduct a face-to-face meeting or conference call with each client at least once a year, and the client's account is formally reviewed in preparation for the meeting. If the client is unavailable for Private Ocean to conduct a face-to-face meeting or call during the year, it 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.

All investment supervisory clients are advised that it remains their responsibility to advise Private Ocean 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 Private Ocean on an annual basis.

B. Private Ocean may conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.

C. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. Private Ocean may also provide a written periodic report summarizing account activity and performance. Further, reports are furnished weekly to clients in electronic format, on 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 Private Ocean Newsletter covering global asset class performance, special investment or financial planning topics, & administrative matters.

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

A. Private Ocean previously received client referrals Schwab through its 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.

B. Except for Schwab legacy clients that were previously referred to Private Ocean through the Service as described in 14A above, neither Private Ocean nor its related persons directly or indirectly compensates any person for client referrals who is not a supervised person of Private Ocean.



## ITEM 15 CUSTODY

Private Ocean shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. Private Ocean urges its clients to carefully review the notices and statements. Private Ocean may also provide a written periodic report summarizing account activity and performance.

**Please Note:** To the extent that Private Ocean provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by Private Ocean with the account statements received from the account custodian. **Please Also Note:** The account custodian does not verify the accuracy of Private Ocean's advisory fee calculation.

**Please Also Note:** Private Ocean engages in other practices and/or services on behalf of its clients that require disclosure on Form ADV Part 1, Item 9 (the Custody section), which practices and/or services are subject to an annual surprise CPA examination in accordance with the requirements of Rule 206(4)-2 under the Investment Advisers Act of 1940. Private Ocean's Chief Compliance Officer, Justin Hult, remains available to address any questions that a client or prospective client may have regarding custody-related issues

## ITEM 16 INVESTMENT DISCRETION

The client can determine to engage Private Ocean to provide investment advisory services on a discretionary basis. Prior to Private Ocean assuming discretionary authority over a client's account, the client shall be required to execute an Investment Advisory Agreement, naming Private Ocean as the client's attorney and agent in fact, granting Private Ocean full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage Private Ocean on a discretionary basis may, at anytime, impose restrictions, in writing, on Private Ocean's discretionary authority (i.e. limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe Private Ocean's use of margin, etc.).



## **ITEM 17      VOTING CLIENT SECURITIES**

A. Private Ocean does not vote client proxies. Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets.

B. Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact Private Ocean to discuss any questions they may have with a particular solicitation.

## **ITEM 18      FINANCIAL INFORMATION**

A. Private Ocean does not solicit fees of more than \$1,200, per client, six months or more in advance.

B. Private Ocean is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.

C. Private Ocean has not been the subject of a bankruptcy petition.

ANY QUESTIONS: Private Ocean's Chief Compliance Officer, Justin Hult, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.