

## **Item 1 – Cover Page**

### **Friedberg Investment Management, Inc.**

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**March 29, 2017**

#### **Form ADV Part 2A Brochure**

This Brochure provides information about the qualifications and business practices of Friedberg Investment Management. If you have any questions about the contents of this Brochure, please contact us at 713-622-2332 or [info@friedberginvestments.com](mailto:info@friedberginvestments.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Friedberg Investment Management, Inc. (FIM) is a registered investment adviser. Registration does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

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

## **Item 2 Material Changes**

Material Changes:

There have been no material changes since the last posting of our brochure.

Generally, Friedberg Investment Management, Inc. will notify clients of material changes on an annual basis. However, where we determine that an interim notification is either meaningful or required, we will notify our clients promptly.

Currently, our Brochure may be requested by contacting us at 713-622-2332 or [info@friedberginvestments.com](mailto:info@friedberginvestments.com).

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## Item 4 Advisory Business

### A. Description of Advisory Firm

Friedberg Investment Management, Inc. (FIM) is an independent, fee-based money management firm. FIM was founded in 1978 by Jeffrey Friedberg, the current President. The firm's executive owners are Jeffrey Friedberg, Jonathan Reichek and Mona Tanner.

### B. Types of Advisory Services

FIM provides asset management services. FIM manages separate accounts for our clients. Friedberg Investment Management is an *independent*, fee-based, money management firm. We are not affiliated with any brokerage firm, mutual fund organization, financial planning firm or insurance company. We do not charge commissions. We use limited power of attorney to manage securities accounts for clients. The accounts are placed with brokerage firms mutually acceptable to our firm and our clients. There are generally no restrictions on the types of investments or transactions that may be executed other than that the securities be publicly traded.

FIM manages each portfolio separately--there is no commingling or pooling of funds. FIM does not take custody of a client's funds or securities. We simply establish accounts at brokerage firms which offer our clients low commissions, and we manage these accounts through limited power-of-attorney. We issue a statement every month showing profit or loss as well as holdings, and we are accessible to our clients every day. Each investor has direct access to the individuals at FIM who manage their portfolios. The principals of FIM are decision makers, not order takers.

FIM is now offering Retirement Planning as a complimentary service to our clients. We want to help assist our clients so they can answer basic retirement questions such as:

- When can I retire?
- How much should I be saving?
- How much can I spend?
- What gifts/inheritance can I leave for my family?
- Can I afford a second home / more travel / a new car?

The process involved in our Retirement Planning service is as follows:

- Client fills in a detailed questionnaire providing information on
  - o their current and estimated future income
  - o their current and future spending
  - o their current and future lifestyle goals
- Jonathan Reichek analyzes the data and prepares a report
- Jonathan Reichek and the client meet, in person or via phone conference, to discuss how financially prepared the client is for their retirement
- Jonathan Reichek and client discuss what the client may need to do financially to help them to attain their retirement goals

### C. Client Tailored Services and Client Imposed Restrictions

Portfolios are very closely tailored to the needs of each investor. Our investment advice is tailored to meet our clients' needs and investment objectives. If you retain our firm for asset management services, we will meet with you to determine your investment objectives, risk tolerance, and other relevant information (the "suitability information") at the beginning of our advisory relationship. We will use the suitability information

we gather to develop a strategy that enables our firm to give you continuous and focused investment advice and/or to make investments on your behalf. As part of our portfolio management services, we may customize an investment portfolio for you in accordance with your risk tolerance and investing objectives. We may also invest your assets using a predefined strategy, or we may invest your assets according to one or more model portfolios developed by our firm. Once we construct an investment portfolio for you, or select a model portfolio, we will monitor your portfolio's performance on an ongoing basis, and will rebalance or reorient the portfolio as required by changes in market conditions and in your financial circumstances.

Each client signs a management agreement granting the firm the authority to determine which securities, as well as the number of shares, are to be bought or sold. However, FIM's investment authority may be subject to specified investment objectives, guidelines, and/or conditions imposed by the client by putting their limitations/restrictions in writing. For example, a client may indicate that the investment in any particular stock or industry should not exceed specified percentages of the value of the portfolio or they might specify restrictions or prohibitions of transactions in the securities of a specific company or industry.

For clients to whom FIM does not provide asset management services, FIM may offer personalized investment advice through consultation for a mutually agreeable fee. With respect to these services, the client is free at all times to accept or reject any investment recommendation from FIM and the client is solely responsible for implementing any recommendations made by FIM

#### **D. Wrap Fee Programs**

FIM does not participate in wrap-fee programs.

#### **E. Assets Under Management**

As of December 31, 2016, we had \$265,266,033 in assets under management on a discretionary basis.

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

#### **A. Compensation for Services**

Our management fees are billed as a percentage of assets under management. Approximately 99% of our billing is for management of client accounts. We use the following fee schedule:

<b>Portfolio Objective:</b>	<b>Rate</b>
Growth	1.40% / year
Balanced	1.20% / year
Income	0.90% / year

We offer a 10% discount off of our advisory fee for accounts opened with greater than \$500,000 and a 20% discount for accounts opened with greater than \$1,000,000. Existing client relationships may be subject to a different fee schedule than that shown above depending on the fee schedule that was in place at the time they became a client.

Fees are payable at the end of each three month period and are computed by multiplying one-fourth the annual percentage rate by the average value of the assets under management during the period. We advise our clients that the above fee rates may be higher or lower than those offered for comparable investment management services. We have adjusted or waived fees in the past. Depending upon the needs of the client and the complexity of the situation, fees could be waived or adjusted.

For clients to whom FIM does not provide asset management services, FIM may offer personalized investment advice through consultation for a mutually agreeable fee on the order of \$250 per hour. We advise potential clients that they might be able to obtain comparable services at a lower fee rate. With respect to these services, the client is free at all times to accept or reject any investment recommendation from FIM and the client is solely responsible for implementing any recommendations made by FIM.

#### **B. How Fees Are Paid**

The specific manner in which fees are billed by FIM is established in our Management Agreement which is signed by the client and FIM at the time we begin our advisory relationship. Clients may elect to be billed directly for fees or they may decide to authorize FIM to debit fees from their account through the qualified custodian holding their funds and securities. For clients who wish to pay their management fee with a personal check, FIM will send them an invoice showing the amount due and the calculations of how the fee was derived. We will deduct our advisory fee only when you have given our firm written authorization permitting the fees to be paid directly from your account. You will receive a copy of your fee invoice showing the amount of the debit. Furthermore, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements from your account. You should review all statements for accuracy. We receive daily electronic downloads of the transactions in each client's account to reconcile with fees debited. We also have access to review your brokerage account statements.

Accounts are not charged a fee until they have been under management for 3 full months. Accounts

terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any earned, unpaid fees will be due and payable. Refunds are not applicable since fees are paid in arrears.

### **C. Other Expenses or Fees Incurred by Client**

FIM's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Friedberg Investment Management's fee, and FIM shall not receive any portion of these commissions, fees, and costs. FIM does not charge to open or close an account.

To fully understand the total cost you will incur, you should review all the fees charged by mutual funds, exchange traded funds, our firm, and others. For information on our brokerage practices, please refer to the "Brokerage Practices" section of this brochure.

We may trade client accounts on margin. Each client must sign a separate margin agreement *before* margin is extended to that client account. Fees for advice and execution on these securities are based on the total asset value of the account, which includes the value of the securities purchased on margin. While a negative amount may show on a client's statement for the margined security as the result of a lower net market value, the amount of the fee is based on the absolute market value. This could create a conflict of interest where we may have an incentive to encourage the use of margin to create a higher market value and therefore receive a higher fee. The use of margin may also result in interest charges in addition to all other fees and expenses associated with the security involved.

### **D. Advance Fees and Termination of the Advisory Relationship**

FIM does not require that any fee be paid in advance. In special instances, when a client requests to pay their fee in advance, an estimated fee will be provided to that client. At the end of the period that the estimated fee covers, an invoice will be calculated based on the actual assets under management for the period. At that time, the client will pay FIM any balance owed or FIM will reimburse or credit the client for any over-payment.

Clients may terminate our investment advisory relationship at any time upon written notice. Accounts terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any earned, unpaid fees will be due and payable. Refunds are not applicable since fees are paid in arrears.

### **E. Compensation for the Sale of Securities or Other Investment Products**

Neither FIM nor any of its supervised persons accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

Friedberg Investment Management does not accept performance-based fees such as fees based on a share of capital gains on or capital appreciation of the assets of a client.

## **Item 7 Types of Clients**

FIM provides portfolio management services to individuals, high net worth individuals, and corporate pension and profit-sharing plans. FIM also manages IRAs, Roths, individual 401-ks, SEPs, trusts and

custodial accounts.

All accounts are oriented to each investor's preference. We manage growth and balanced portfolios for investors seeking appreciation and income generating portfolios for investors desiring income.

The minimum size for a new account is \$250,000. This minimum requirement has been waived in the past and may be waived in the future, a decision based upon the needs of the client and the complexity of the situation.

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

### **A. Methods of Analysis, Investment Strategies and Risk of Loss**

FIM uses fundamental and technical methods of analysis in determining which stocks are appropriate for our clients. In selecting appropriate investments for our clients, we also use asset allocation methods based on the Modern Portfolio Theory.

- Fundamental analysis entails the study of the various financial and operational metrics of a given company in order to determine the likely direction and magnitude of future profitability and the market valuation of that company.
- Technical analysis involves the analysis of past stock price/volume data to make an assessment of the supply/demand situation for a given security.
- Modern Portfolio Theory (MPT) is the theory of investment which attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully diversifying the proportions of various assets.

FIM pursues long-term investment objectives with a patient, prudent style of investing. We buy only publicly traded securities. In pursuit of growth objectives, we concentrate on relatively young companies with a competitive edge in the marketplace and ample room for expansion. A typical growth portfolio contains 15 to 20 stocks in a variety of industries. On the conservative side, we seek income and/or safety of principal through investments in utility stocks, real estate investment trusts (REITs), and publicly traded master limited partnerships (MLPs) and bonds (where appropriate). We strongly prefer growing income streams from these types of securities to the steady income from bonds. Balanced portfolios, seeking some growth but greater stability than growth accounts, are comprised of a mixture of all of the above types of securities.

**Research:** We have four research analysts who spend the majority of their time looking at information pertinent to those companies we are interested in. We also have a part-time research analyst. Among the sources of information are financial newspapers and magazines. A company is also evaluated by studying its annual reports, prospectuses and filings with the Securities and Exchange Commission. Company press releases provide news. Much research information is derived from quarterly company earnings conference calls via telephone or internet, company presentations at investment conferences or meetings, site-visits to company offices or facilities and visits by corporate executives to FIM's office. We also review research reports prepared by various independent research companies.

**Investment Committee:** The decision to place a security on the "approved to buy" list is made by our investment committee, which consists of our four research analysts. The committee gives the green light for the purchase of all securities we place in portfolios. The addition of a stock to the "buy" list requires favorable votes from three of the four members. It is then up to the Portfolio Managers, Jeff Friedberg and Jonathan Reichel to decide which stocks are appropriate for each account. Their decision is based on the goals of the client, the cash available in the account and any noted restrictions designated by the client.

**Client Investment Process:** Account objectives are discussed with each client at the time management of their account begins. The client is asked to verify their account objectives according to the following guidelines and definitions:



- **Safety/Income** accounts are managed to generate income from dividends, interest or other payouts. Volatility should be comparable to the bond market.
- **Conservative** accounts are managed to generate returns primarily through dividends or interest, but hopefully with modest growth. Volatility should be relatively low. Securities in these accounts are usually preferred stocks, REITs, MLPs, stocks with high dividend yields or bonds.
- **Balanced** accounts are managed to achieve returns through a combination of growth and income. Volatility should be lower than the broad stock market. Components of a "balanced" account could include growth stocks, dividend paying "blue-chip" stocks, convertible bonds, preferred stocks, utility stocks, real estate investment trusts (REITs), and master limited partnerships (MLPs).
- **Cautious growth** accounts are managed for growth but with less risk and lower volatility than a typical growth account.
- **Growth** accounts are managed with the objective of achieving growth by investing in common stocks. Risk and volatility should be comparable to that of the broad stock market.
- **Aggressive growth** accounts embody a degree of risk greater than that of the average stock. Volatility is likely to be greater than the market. Growth portfolios are typically comprised of between 10 and 30 diversified stocks and a cash-equivalent money market fund.

Our investment strategies and advice may vary depending upon each client's specific financial situation. As such, we determine investments and allocations based upon your predefined objectives, risk tolerance, time horizon, financial horizon, financial information, liquidity needs, and other various suitability factors. Your restrictions and guidelines may affect the composition of your portfolio.

Clients are reminded on an annual basis that they can modify their investment objectives and are provided a "change in objective" form to complete and return to us.

**Risk of Loss:** Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

**Tax Considerations:** Our strategies and investments may have unique and significant tax implications. However, unless we specifically agree otherwise, and in writing, tax efficiency is not our primary consideration in the management of your assets. Regardless of your account size or any other factors, we strongly recommend that you continuously consult with a tax professional prior to and throughout the investing of your assets.

Moreover, as a result of revised IRS regulations, custodians and broker-dealers began reporting the cost basis of equities acquired in client accounts on or after January 1, 2011. Your custodian defaults to the FIFO (First-In First-Out) accounting method for calculating the cost basis of your investments. You are responsible for contacting your tax advisor to determine if this accounting method is the right choice for you. If your tax advisor believes another accounting method is more advantageous, please provide written notice to our firm immediately and we will alert your account custodian of your individually selected accounting method. Please note that decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

## **B. Material Risks of Methods of Analysis and Investment Strategies**

**Fundamental Analysis** - One can never fully know the problems that can beset a given company. Thus, there is risk that any investment choice can turn sour. Even if one were to know all aspects of a company in great detail, there is no assurance that we or anyone else would know precisely how to value that company. Different investors in possession of the same information can and often do value companies differently. The bottom line is that there will always be some degree of uncertainty in the likelihood that a given investment choice will perform well. This is why we maintain diversification in managed portfolios.

Technical Analysis - The analysis of stock chart price and volume patterns can occasionally reveal that there is significant buying pressure or selling pressure for a given security. However, it is extremely difficult to ascertain how long that pressure may persist. In addition, news items regarding the company, the industry or the economy can change investor sentiment overnight. There is no assurance that technical analysis will produce consistent results.

Modern Portfolio Theory (MPT) - Market risk is that part of a security's risk that is common to all securities of the same general class (stocks and bonds) and thus cannot be eliminated by diversification.

In short, there is risk inherent in virtually all publicly traded securities. That risk can never be eliminated even by the best fundamental or technical analysis.

## **Item 9 Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of Friedberg Investment Management's advisory business or the integrity of our management.

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

### **A. Registration as a Broker/Dealer or Broker/Dealer Representative**

Neither FIM nor its representatives are registered as a Broker/Dealer or Broker/Dealer Representative.

### **B. Registration as a Futures Commission Merchant, Commodity Pool Operator or a Commodity Trading Advisor**

Neither FIM nor its representatives are registered as a Futures Commission Merchant, Commodity Pool Operator or a Commodity Trading Advisor.

### **C. Other Relationships or Affiliations**

Neither FIM nor its representatives have any material relationships to this advisory business that would present a possible conflict of interest.

FIM has a solicitor arrangement with Coughlen Financial Services (CFS) in which CFS may bring a client to FIM for FIM to manage the client's portfolio. CFS is compensated by receiving a percentage of the collected management fee. The arrangement between FIM and CFS is described in Item 14.

### **D. Other Investment Advisers**

Our firm does not recommend or select other investment advisers to manage assets for our clients.

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

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

FIM has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at FIM must acknowledge the terms of the Code of Ethics annually, or as amended.

A full copy of the Code of Ethics will be provided to any client or prospective client upon request. A copy of the firm's Code of Ethics can be obtained by contacting Shirley or Mona at 713-622-2332.

## **B. Participation or Interest in Client Transactions**

Neither our firm nor any of our Associated Persons has any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in this brochure and as noted under the "Personal Trading" section below.

## **C. Personal Trading**

Principals, family members, and employees of FIM (related parties) hold many of the same securities held in client accounts. A conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To eliminate this conflict of interest, it is our policy that neither FIM employees nor our Associated Persons shall have priority over your account in the purchase or sale of securities. In such cases, it has always been and remains the practice of FIM to purchase a given security for a related account after purchasing the same security for clients. Similarly, sales of securities are made in clients' accounts before being made in related accounts. If transactions are handled in block orders, it is permissible to bunch transactions for related accounts in the same block with those for client accounts.

The Code of Ethics requires all employees to adhere to federal securities laws, safeguard client information, and put the clients' interests before their own interests. For personal trading, access persons are subject to blackout periods. All trading done in access person's accounts is pre-approved with Jeffrey Friedberg, President, to insure that the trade is not in conflict with transactions to be made in client accounts. When the President is away from the office, Vice President Jonathan Reichel will have the authority to approve or decline personal trades. A review of access person's trades is done by the CCO.

# **Item 12 Brokerage Practices**

## **A. Choosing a Brokerage Firm**

We maintain relationships with several broker-dealers. While you are free to choose any broker-dealer or other service provider, we recommend that you establish an account with a brokerage firm with which we have an existing relationship. Such relationships may include benefits provided to our firm, including but not limited to, market information and administrative services that help our firm manage your account(s). We believe that recommended broker-dealers provide quality execution services for our clients at competitive prices. Price is not the sole factor we consider in evaluating best execution. We also consider the quality of the brokerage services provided by recommended broker-dealers, the firm's reputation, execution capabilities, commission rates, and responsiveness to our clients and our firm. In recognition of the value of additional brokerage products and services recommended broker-dealers provide, you may pay higher commissions and/or trading costs than those that may be available elsewhere.

The brokerage firm chosen for each account is mutually agreed upon between each of our clients and our firm. All transactions are subsequently handled in each client's account at prevailing commission rates. If, for any reason, we or our client become dissatisfied with the services or rates provided, we may jointly choose to move the account to another brokerage firm.

## **Brokerage Firms Used by FIM**

FIM may recommend that clients establish brokerage accounts with Fidelity Brokerage Services, member NYSE/SIPC, TD AMERITRADE, Inc. ("TD AMERITRADE") member FINRA/SIPC, or the Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab Institutional"), a registered broker-dealer, to maintain custody of the client's assets and to effect trades for their accounts.

## **Client Responsibility for Additional Broker Fees**

We advise our clients that transaction charges may apply when purchasing or selling securities. FIM does not share in any portion of the brokerage fees/transaction charges imposed by the recommended custodian/broker-dealer. Additionally, the commission/transaction fees charged by the recommended custodian/broker-dealer may be higher or lower than those charged by other broker-dealers/custodians. Commission schedules apply to all accounts at a given brokerage firm. Commission rates for online trading at T.D. Ameritrade, Schwab and Fidelity are based on household balances. Some brokerage firms offer clients lower commission rates for signing up for electronic delivery of statements and confirmations. We advise clients of this option. The decision to participate in electronic delivery is at the discretion of the client.

Clients are advised that they are responsible for commissions, transaction fees, taxes, wire transfer charges, etc. Those fees are separate from fees charged by FIM. See Item 5 in this brochure.

## **Soft Dollar Arrangements**

FIM does not participate in any soft dollar arrangements.

## **Benefits from Brokers**

### **TD AMERITRADE**

FIM participates in the TD AMERITRADE Institutional program, division of TD AMERITRADE. TD AMERITRADE is an independent and unaffiliated SEC-registered broker-dealer and FINRA member. TD AMERITRADE offers independent investment advisers services that include custody of securities, trade execution, clearance, and settlement of transactions. FIM receives some benefits from TD AMERITRADE through its participation in the program. There is no direct link between FIM's participation in the program and the investment advice it gives to its clients, although FIM receives economic benefits through its participation in the program that are typically not available to TD AMERITRADE retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving adviser participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to FIM by third party vendors. Some of the products and services made available by TD AMERITRADE through the program may benefit FIM, but may not benefit its client accounts. These products or services may assist FIM in managing and administering client accounts, including accounts not maintained at TD AMERITRADE. Other services made available by TD AMERITRADE are intended to help FIM manage and further develop its business enterprise. The benefits received by FIM or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD AMERITRADE. As part of its fiduciary duties to clients, FIM endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by FIM or its related persons in and of itself creates a potential conflict of interest and may indirectly influence FIM's choice of TD AMERITRADE for custody and brokerage services.

### **Schwab**

FIM recommends that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab Institutional"), a registered broker-dealer, to maintain custody of the client's assets and to effect trades for their accounts. Clients are advised that transaction charges may apply when purchasing or selling securities. FIM does not share in any portion of the brokerage fees/transaction charges imposed by Schwab Institutional. Additionally, the commission/transaction fees charged by Schwab Institutional may be higher or lower than those charged by other broker-dealers/custodians. Schwab

Institutional provides FIM with access to its institutional trading and operations services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisers at no charge to them so long as a total of at least \$10 million of the adviser's clients' account assets are maintained at Schwab Institutional. Schwab Institutional services may include research, brokerage, custody, access to mutual funds and other investments that are otherwise available only to institutional investors or would require significantly higher minimum initial investments. Schwab Institutional also makes available other products and services that benefit FIM, but may not necessarily directly benefit its clients' accounts. These products and services include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution, provide research, pricing information and other market data, facilitate payment of FIM's fees from its clients' accounts, and assist with back-office support, recordkeeping and client reporting. The availability of the foregoing products and services to FIM is not contingent upon FIM committing to Schwab Institutional any specific amount of business (assets in custody or trading). There are no direct dollar payments from Schwab to FIM. The benefit to FIM is in the form of products and services that Schwab provides. Clients of FIM will not pay additional fees or incur higher costs than they would if FIM did not receive discounts on these services. FIM believes that Schwab Institutional provides quality services at reasonable commission rates. FIM bases its opinion on several factors, including the broker's ability to provide professional services, competitive commission rates, volume discounts, execution price negotiations, the broker's reputation, experience, and financial stability, and the quality of service rendered by the broker or dealer in other transactions. Best execution is not measured solely in reference to commission rates. Lower commissions might be available elsewhere, but FIM believes the difference in cost is reasonably justified by the quality of the brokerage services offered through Schwab Institutional. FIM will periodically review the fee structures and services provided by recommended broker/dealers and investment companies to ensure that our clients are receiving quality service and execution for the cost involved. Services that assist FIM in the performance of its duties for its clients are also considered. Transaction commissions may be higher than those obtainable from other broker/dealers who do not provide such products and services. Normally, the suggestion of a broker/dealer is made in conjunction with the commencement of the client using the services of FIM to manage a securities account.

### **Brokerage for Client Referrals**

We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

### **B. Block Trades and IPO Allocations**

When we are purchasing or selling the same security for a number of portfolios at the same brokerage firm, we have the opportunity to do this in a block account. The result is that all buyers or sellers get the same execution price, which is the average for all of the separate trades within the block. Brokerage commissions are charged as if the securities purchased or sold had been traded in individual accounts. Accounts of persons in or associated with our firm may participate in block trading but receive no preferential treatment.

Certain of the brokerage firms which hold FIM managed accounts occasionally offer initial public offerings (IPOs). Clients of FIM can only participate in IPOs if their investment accounts are domiciled at one of these brokerage firms.

When more than one managed account resides at a brokerage firm offering an IPO, it is usually not possible to obtain an allocation of IPO shares for each managed account. Therefore, the following criteria are applied to assure fair distribution of IPO shares.

1. No principal or employee of FIM or any of their immediate families is eligible for an IPO allocation.
2. The stock being offered must be compatible with the objectives of the managed account and asset allocation within the portfolio.
3. IPO allocations will be made on a rotating basis for those managed accounts for which the IPO shares are appropriate and there is cash available for the purchase.

## **Item 13 Review of Accounts**

### **A. Frequency of Account Reviews**

Portfolios are managed by either Mr. Friedberg or Mr. Reichek. Mr. Friedberg and Mr. Reichek perform reviews, once a week normally and once a month at minimum of the portfolios they manage. Accounts are reviewed together, in no special sequence, for the performance, price, and continuing suitability of each investment, the percentage of cash equivalent, and the general degree of risk in light of market conditions. As described in Item 8A, investment decisions are made by the FIM Investment Committee which is comprised of Jeff Friedberg, President, Jonathan Reichek, Vice President, David Emmel, Vice President and Monica Carmody, Research Analyst (contract).

### **B. Review Trigger Factors**

Supplementary reviews are triggered by new recommendations made by the Investment Committee, by the passing of a long term capital gains date, or by inquiry of a client. Clients are reminded on an annual basis that their accounts are being managed according to their written objectives. The accounts will continue under the same goal objectives until we receive written instructions to implement a change.

### **C. Reports and Account Statements**

In addition to the statement furnished by the brokerage firm, FIM provides a written report or statement to each client once a month. The report states the number of shares, price and value of each security and the cash reserves. All transactions, including broker and brokerage commissions, dividends, interest, option income, deposits, withdrawals and management fees are shown on the statement. The report summarizes performance for the month, year-to-date, recent prior years and since origination of the account. FIM will send an annual summary of taxable transactions and management fees paid during the year to clients who do not receive this information from their brokers.

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

### **A. Other Compensation**

Please refer to the *Brokerage Practices* section above for disclosures on research and other benefits we may receive resulting from our relationship with TD AMERITRADE and Schwab.

### **B. Client Referrals/Solicitor Arrangement**

Since 2004, Thomas "Tucker" Coughlen, of Coughlen Financial Services (CFS), has been referring investors to FIM. In return for these referrals, Coughlen Financial Services receives 20% of the investment management fee paid to FIM for the referred accounts. This arrangement may change with future clients. The management fee charged to the client is based on the same fee schedule described in Item 5. Although Mr. Coughlen maintains contact with these clients, will enter into discussions regarding their portfolios, and may help in some of the administrative servicing of the accounts, investment decisions are made by the FIM Investment Committee and FIM portfolio managers. The minimum size for a referred account is \$250,000, the same as the FIM minimum. This minimum requirement has been waived in the past and may be waived in the future, a decision based upon the needs of the client and the complexity of the situation.

## **Item 15 Custody**

As paying agent for our firm, your independent custodian will directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. We do not have physical custody of any of your funds and/or

securities. Your funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian. You will receive account statements from the independent, qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy. We will also provide statements to you reflecting the amount of advisory fees deducted from your account.

Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Please contact us with any questions regarding discrepancies.

## **Item 16 Investment Discretion**

FIM receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, such discretion is exercised in a manner consistent with the written investment objectives agreed upon for each particular client account. When selecting securities and determining amounts, FIM observes the investment policies, limitations and restrictions of the clients for which it advises. Investment guidelines, restrictions and amendments must be provided to FIM in writing.

## **Item 17 Voting Client Securities**

### **A. Proxy Voting**

With respect to accounts held at Schwab, FIM will determine how to vote proxies based on FIM's reasonable judgment of that vote most likely to produce favorable financial results for FIM's clients. For accounts held with other custodians, FIM will not vote proxies. Proxy votes generally will be cast in favor of proposals that maintain or strengthen the shared interests of shareholders and management, increase shareholder value, maintain or increase shareholder influence over the issuer's board of directors and management, and maintain or increase the rights of shareholders; proxy votes generally will be cast against proposals having the opposite effect. However, FIM will consider both sides of each proxy issue.

Consistent with FIM's paramount commitment to the financial investment goals of its clients, social considerations will not be considered absent contrary instructions by a client. Conflicts of interest between FIM or a principal of FIM and FIM's clients in respect of a proxy issue conceivably may arise. If FIM determines that a material conflict of interest exists, FIM will take the necessary steps to resolve the conflict before voting the proxies. For example, FIM may disclose the existence and nature of the conflict to the client(s) owning the securities, and seek directions on how to vote the proxies; FIM may abstain from voting, particularly if there are conflicting client interests (for example, where client accounts hold different client securities in a competitive merger situation); or take other necessary steps designed to ensure that a decision to vote the proxy is in the client's best interest and was not the product of the conflict.

FIM keeps certain records required by applicable law in connection with its proxy voting activities for clients and shall provide proxy-voting information to clients upon their written or oral request. Clients may obtain a copy of FIM's complete proxy voting policies and procedures upon request. Clients may also obtain information from FIM about how FIM voted any proxies on behalf of their account(s). They may contact our office for the information.

## **Item 18 Financial Information**

We are not required to provide financial information to our clients because we do not:

- require the prepayment of more than \$1,200 in fees and six or more months in advance, or
- take custody of client funds or securities, or
- have a financial condition that is reasonably likely to impair our ability to meet our commitments to you.

## **Additional Information**

### **Your Privacy**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any nonpublic personal information about you to any nonaffiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to nonpublic personal information about you to employees who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your nonpublic personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Please contact our main office at the telephone number on the cover page of this brochure if you have any questions regarding this policy.

### **Trade Errors**

In the event a trading error occurs in your account; our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account. In general, if a trade error results in a loss, the error will be corrected through the executing broker-dealer and your account will be reimbursed. If the trading error results in a profit and is discovered before settlement, the trade error will be corrected through the executing broker-dealer and the broker dealer will keep the profit. If the trade error is discovered after settlement and there is a profit, the trade will be corrected through the executing broker-dealer and you will keep the profit.

### **Class Action Lawsuits**

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation nor do we initiate or participate in litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you.

### **Business Continuity Disclosure**

We have a Business Continuity Plan that addresses how the Firm will respond to events that may disrupt its business. If the main telephone line is inactive, the emergency number is 713-419-1886. If the emergency line is down and you need assistance with your account, please contact your custodian. Contact numbers are: TD Ameritrade: 800-431-3500, Schwab: 800-435-4000, and Fidelity: 800-523-5518.

We will resume operations as quickly as possible (preferably within twenty-four hours) depending on the severity of the business disruption. Our Business Continuity Plan covers data backup and recovery, operational assessments, alternative communications, alternate business locations, regulatory reporting and the assurance of prompt access to funds and securities for our customers. Additional details regarding the firm's Business Continuity Plan are available upon request.