



**Hermes Econometrics**

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**ITEM 1 – COVER PAGE**

This brochure provides information about the qualifications and business practices of Hermes Econometrics. If you have any questions about the contents of this brochure, please contact us at 415-454-4184 or [maia@econ101.com](mailto:maia@econ101.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. This brochure is dated December 31, 2011.

Hermes Econometrics is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser. Additional information about Hermes also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**ITEM 2 – MATERIAL CHANGES**

In the future, this item will discuss only specific material changes that are made to the brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

A new brochure will be published and made available as necessary.

This brochure can be requested by contacting the Principal of Hermes Econometrics, Maia McGehee, at (415) 454-4184, or [maia@econ101.com](mailto:maia@econ101.com). This brochure is also available on our web site [www.econ101.com](http://www.econ101.com), also free of charge.

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## ITEM 4 – ADVISORY BUSINESS

### THE COMPANY

Hermes Econometrics is a sole proprietorship; fee based SEC registered Investment Advisor. As a result of changes mandated by Dodd-Frank Act, Hermes Econometrics will be registered with the State of California in 2012.

Asset allocation and investment advice is rendered for mutual funds, variable annuity, variable life contracts and index mutual funds. These services are offered through FINRA Registered Representatives, having a minimum Series 6 license, and an insurance license if necessary. These services are also offered directly to investors.

Hermes Econometrics specifically provides risk management methods using statistical and technical analysis, charting and econometrics. A data retrieval service is primarily used, but financial newspapers and other research services may be relied upon occasionally. Our exchanges may be implemented as often as one day or as infrequently as annually. Statistical methods will be employed.

The client, may upon consulting with his/her representative, designate in writing the stock or bond fund to be allocated. Hermes Econometrics operates under a limited power of attorney authorizing Hermes Econometrics to exchange between the designated fund and a money-market fund.

Hermes Econometrics does obtain Limited Power of Attorney at the investor's custodian, fund or annuity to effect exchanges in their accounts and to withdraw fees. Hermes Econometrics does not have custody of the client's funds or securities. Hermes does not have the authority to determine, without obtaining specific investor consent the broker/dealer to be used, or the commission rates paid. Hermes may recommend a fund, but will not share in the sales charges or any other charges imposed by the fund or annuity. Hermes may recommend the substitution of funds if, in its opinion, the funds are not conducive to investment strategy. Hermes Econometrics does not provide financial planning services, charge hourly or fixed fees or commissions.

Hermes Econometrics does not primarily provide investment supervisory services, but does occasionally provide investment advice through consultation with an investor directly. Hermes does not usually recommend representatives to clients, but may recommend a representative based on licensing and location.

Hermes Econometrics resolves to set up client accounts as soon as practical. However, due to circumstances beyond the control of Hermes (including such factors as incomplete paperwork, etc), accounts may take four weeks or more to establish. If a signal is called during initial processing, a client's funds may or may not be positioned, and possible losses may occur for which Hermes assumes no responsibility.

Certain personnel positions at Hermes require minimum business experience, investment experience, minimum education level and a proficiency in English. Maia McGehee the firm's Principal and Sole Proprietor founded Hermes Econometrics in 1994. Ms McGehee has held FINRA licenses Series 7, 24, 63, and 65 before founding Hermes. Some licenses are held by Mercury Securities

As of December 31,2010, Hermes Econometrics managed \$27,325,648 in discretionary funds.

## ITEM 5 – ADVISORY FEES

Investor shall pay Advisor for services rendered pursuant to this agreement calculated in accordance with the schedule below. Fees shall be payable for the first quarter upon signing this agreement, for additional amounts when deposited and as agreed upon by contract. Multiple contracts in the same ownership may be combined to take advantage of breakpoint fee reductions. Fees are paid in advance by check or liquidation from the fund or variable annuity at the option of the client. There may be additional Brokerage or transaction fees imposed by the mutual fund or variable annuity used, and these fees will affect performance. Hermes Econometrics does not participate in any additional fees, other than the advisory fee. While Ms McGehee is licensed with a sister FINRA member firm and could receive

compensation for the sale of mutual funds, it is her practice to use "investor shares" which available without sales charges, if a client is a client of both Mercury Securities and Hermes Econometrics. This is not a requirement nor is it recommended.

Fees will be refunded in full if termination agreement is requested within five business days of contract acceptance. Accounts will be managed for the period paid. A \$50 service charge may be incurred by a client who converts from one investor agreement with advisor to another (except at renewal) and the fee schedule below will apply to the balance of the contract period.

Amount Invested	Annual Fee	Billing period
\$ 25.000 - \$100. 000	2.40%	Quarterly
\$ 100.000-\$500.000	2.0%	Quarterly
\$500.000 - \$999.999	1.50%	Quarterly
Over \$1,000,000	1.00%	Quarterly

Advisor reserves the right to make exceptions to the account minimums. Unless otherwise precluded by state statute, this Agreement will remain in effect until canceled in writing either by Advisor or Investor. Unless the Advisory fee is received within 15 days of the anniversary date, the Agreement will automatically cancel. Either party may terminate this Agreement by giving written notice to the other at any time during the term of this Agreement.

Hermes generally requires a minimum account size of \$25,000 for new Investment Management clients. This account size may be negotiable under certain circumstances.

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

Neither Hermes Econometrics nor any supervised person at Hermes accepts performance-based fees.

#### **ITEM 7 – TYPES OF CLIENTS**

Hermes provides services to retirement accounts, including pensions and 401 (k), individuals, trusts, and joint accounts. Hermes generally requires a minimum account size of \$25,000. This minimum account size may be negotiable under certain circumstances. There is no maximum investment.

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

##### **METHOD OF ANALYSIS**

Hermes's security analysis is based on a number of factors including those derived from commercially available software technology, securities rating services, general market and financial information and specific investment analysis that clients may request. Hermes reviews research from numerous sources, including newspapers, magazines, newsletters, broker- dealer research, conferences, meetings with management and the Internet, to name a few.

##### **INVESTMENT STRATEGIES**

Hermes Econometrics specifically provides risk management methods using statistical and technical analysis, charting and econometrics. A data retrieval service is used primarily, but financial newspapers and other research services may be occasionally relied upon. Our exchanges may be implemented as often as daily or as infrequently as annually. Statistical methods will be employed.

Hermes uses proprietary developed models for analysis and implements models based on allocations agreed to by the investor, any representative and Hermes. Models used are Domestic Equity, Global Equity, and Bonds.

##### **RISK OF LOSS**

All investments present the risk of loss of principal – the risk that the value of securities (equities and bond type mutual

funds), when sold or otherwise disposed of, may be less than the price paid for them. Even though the value of the securities sold is greater than the price paid, there is a risk that the appreciation will be less than inflation. In other words, the purchasing power of the proceeds may be less than the purchasing power of the original investment. Clients should carefully consider the investment objectives, risks and expenses of the various securities utilized by Hermes. Please contact Hermes if you need additional information.

The various securities utilized by Hermes include domestic and international stocks funds, in addition to various inflation protected bond funds. The prices of the mutual funds may decline in response to certain events taking place around the world, including but not limited to; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; governmental or governmental agency responses to economic conditions; and currency, interest rate and commodity price fluctuations. The return of principal for the bond holdings is not guaranteed. Mutual funds that invest in fixed income securities are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings.

Certain funds used by Hermes may invest in international securities. (Investing outside the United States) which involve additional risks, such as currency fluctuations, periods of illiquidity and price volatility, as more fully described in the respective fund's prospectus. These risks may be greater with investments in developing countries. Hermes Econometrics and the Registered representative may take into consideration the funds past performance.

#### **ITEM 9 – DISCIPLINARY INFORMATION**

Neither Hermes Econometrics, nor its staff, has ever been subject to any legal or disciplinary events since inception.

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

Maia McGehee is the Managing Principal of Mercury Securities, LLC. Mercury Securities, LLC is a FINRA member broker-dealer, and is affiliated with Hermes Econometrics. Mercury Securities effects transactions for clients and may receive compensation. Clients of Hermes are not required to be clients of Mercury and visa versa. Hermes and its personnel may on occasion hold or purchase the same mutual funds its clients own, but such purchases do not effect prices to clients and consequently no conflict of interest is believed to exist as purchases are calculated equally at the end of the market session at NAV.

#### **ITEM 11 – CODE OF ETHICS**

Hermes has adopted a Code of Ethics expressing the firm's commitment to ethical conduct. Hermes's Code of Ethics describes the firm's fiduciary duties and responsibilities to clients, and sets forth Hermes's practice of supervising the personal securities transactions of supervised persons with access to client information. Individuals associated with Hermes *may* buy or sell securities for their personal accounts identical to or different than those recommended to clients. It is the expressed policy of Adviser that no person employed by Adviser shall prefer his or her own interest to that of an advisory client or make personal investment decisions based on the investment decisions of advisory clients.

To supervise compliance with its Code of Ethics, Hermes requires that anyone associated with this advisory practice with access to advisory recommendations provide personal brokerage reports to the firm's Chief Compliance Officer. Adviser requires such access persons to also receive approval from the Chief Compliance Officer prior to investing in any IPOs or private placements.

Hermes requires that all individuals must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices. Hermes's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. Any individual not in observance of the above may be subject to disciplinary measures. Hermes will provide a complete copy of this Code of Ethics to any client or prospective client upon request to Maia McGehee at Hermes's principal address.

It is Hermes's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. Hermes will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells

any security to any advisory client.

## **ITEM 12 – BROKERAGE PRACTICES**

As Hermes does not have the discretionary authority to determine the broker dealer to be used or the commission rates to be paid, clients must direct Hermes as to the broker dealer to be used. In directing the use of a particular broker or dealer, it should be understood that Hermes would not have authority to negotiate commissions or obtain volume discounts. In addition, a disparity in commission charges may exist between the commissions charged to other clients.

Most clients use independent mutual funds to custody investments

Adviser participates in the TD Ameritrade Institutional services program. (TD Ameritrade', is a FINRA registered broker dealer. Additional disclosures will be made with Ameritrade documents.

## **ITEM 13 – REVIEW OF ACCOUNTS**

### **REVIEWS**

Maia McGehee, Principal of the Hermes Econometrics, is the sole person responsible for the regular review of each Client's account. While the accounts are informally monitored on at least a weekly basis, formal reviews happen every quarter. The performance of each portfolio is measured on a quarterly basis against standard market indices including, but not limited to: the Dow Jones Industrial Average, the Standard & Poors 500, the Nasdaq Composite and the Russell 2000.

### **REPORTS**

Clients of Hermes receive an original confirmation from the account custodian following execution of a transaction in their account. Clients also receive regular monthly or quarterly statements from the brokerage firm or custodian for their account. Client may have access to all information and transactions in their brokerage account through custodian's website. Adviser is available to confer with the Client whenever it is reasonably requested.

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

Hermes Econometrics enters into Broker-Dealer agreements with broker-dealers and investment advisors under terms customary for such arrangements, to provide investment advice and asset allocation on behalf of clients. Hermes Econometrics will share up to 50% of the management fee with the broker-dealer or investment advisor. Some Funds or Annuities may impose management charges and sales charges. Hermes does not share in any fees other than our advisory fee.

## **ITEM 15 – CUSTODY**

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

## **ITEM 16 – INVESTMENT DISCRETION**

Hermes usually 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, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account. When selecting securities and determining amounts, Hermes observes the investment policies, limitations and restrictions of the clients for whom it advises. Investment guidelines and restrictions must be provided to Hermes in writing.

## **ITEM 17 – VOTING CLIENT SECURITIES**

Proxy Voting: As a matter of firm policy and practice, Hermes does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios.

## ITEM 18 – FINANCIAL INFORMATION

Hermes has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding. Hermes does not solicit fees of more than \$600 per client six months or more in advance.

## ITEM 19 – STATE REGISTERED ADVISORS

### A. Educational and Business Background

Maia McGehee (born 1956) holds a BA degree in Economics from San Diego State University, and completed graduate coursed in Econometrics while there. Ms McGehee hold the following FINRA licenses: Series 7 (General Securities, 1979), Series 63 (all states, 1980), Series 65 (Investment Advisor Law, 1992), Series 24 (General Securities Principal 1994), and Series 79 (Investment Banking, 2009). Ms McGehee has worked in the Financial Industry in various capacities since 1979 prior to founding Hermes Econometrics in 1994.

### B. Other Business Activities

Ms McGehee is the Managing Member and owns 90% of Mercury Securities, LLC, a FINRA Broker/Dealer. The firm is compensated 15% of the fees and commissions processed by Mercury. Ms McGehee's compensation from Mercury varies.

### C. Performance Based Fees

Maia McGehee is not compensated for advisory services based on the performance of the invested assets.

### D. Disciplinary Information

Maia McGehee has not been nor is currently the subject of any reportable legal or disciplinary events.

### E. Relationships with Issuer of Securities

Maia McGehee does not have any relationship or any other arrangement with any issuer of Securities.