

# **Herbein Wealth Management, L.L.C.**

SEC File Number: 801 – 63116

## **Brochure Dated 2/7/2012**

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This Brochure provides information about the qualifications and business practices of Herbein Wealth Management, L.L.C. (“Herbein”). If you have any questions about the contents of this brochure, please contact us at (610) 376-8271 or [wamorgan@herbeinwealth.com](mailto:wamorgan@herbeinwealth.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.

Additional information about Herbein Wealth Management, L.L.C. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

References herein to Herbein Wealth Management, L.L.C. 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**

There have been no material changes made to Herbein Wealth Management, L.L.C.'s disclosure statement since last year's Annual Amendment filing on March 11, 2011.

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#### Item 4            Advisory Business

- A. Herbein is a limited liability company formed on May 24, 1999 in the Commonwealth of Pennsylvania. Herbein became registered as an Investment Adviser Firm in May 2004. Herbein is principally owned by William A. Morgan, Herbein's Managing Member.
- B. As discussed below, Herbein offers to its clients (individuals, business entities, trusts, estates and charitable organizations, and pension and profit sharing plans.) investment advisory services, and, to the extent specifically requested by a client, financial planning and related consulting services.

#### **INVESTMENT ADVISORY SERVICES**

The client can determine to engage Herbein to provide discretionary investment advisory services on a *fee-only* basis. Herbein's annual investment advisory fee is based upon a percentage (%) of the market value of the assets placed under Herbein's management (between 0.50% and 1.00%) as follows:

<u>Market Value of Portfolio</u>	<u>% of Assets</u>
Up to \$999,999	1.00%
\$1,000,000 - \$1,999,999	0.90%
\$2,000,000 - \$2,999,999	0.80%
\$3,000,000 - \$3,999,999	0.70%
\$4,000,000 - \$4,999,999	0.60%
More than \$5,000,000	0.50%

Herbein's annual investment advisory fee shall include investment advisory services, and, to the extent specifically requested by the client, financial planning and consulting services. In the event that the client requires extraordinary planning and/or consultation services (to be determined in the sole discretion of Herbein), Herbein may determine to charge for such additional services, the dollar amount of which shall be set forth in a separate written notice to the client.

#### **RETIREMENT CONSULTING**

Herbein also provides pension consulting services, pursuant to which it assists sponsors of self-directed retirement plans with the selection and/or monitoring of investment alternatives (generally open-end mutual funds) from which plan participants shall choose in self-directing the investments for their individual plan retirement accounts. In addition, to the extent requested by the plan sponsor, Herbein shall also provide participant education designed to assist participants in identifying the appropriate investment strategy for their retirement plan accounts. The terms and conditions of the engagement shall generally be set forth in a *Retirement Plan Consulting Agreement* between Herbein and the plan sponsor.

Herbein also offers the Advisors Access™ 401(k) in coordination with BAM Advisor Services, LLC. In Advisors Access™, Herbein provides those services as described above with the direct support of BAM Advisor Services. Clients choosing Advisors

Access™ will engage both Herbein and BAM Advisor Services, which will provide to the client additional discretionary investment management services.

In Advisors Access™, BAM Advisor Services will exercise discretionary authority to select the plan investments made available to plans' participants. BAM Advisor Services will exercise discretionary authority to select and maintain the plans' investments according to the goals and investment objectives of the plan.

Herbein will continue to work with plan's to monitor plan investments, provide fiduciary plan advice including regular considerations of the goals and objectives of the plan, and provide participant education services to the plan.

The Advisors Access™ 401(k) annual pension consulting fee is based upon a percentage (%) of the market value of the assets placed under Herbein's management (between 0.35% and 1.00%) as follows:

Assets Under Management	Annual Fee
On the first \$1,000,000	1.00%
On the next \$1,000,000	0.75%
On the next \$3,000,000	0.55%
On the next \$5,000,000	0.40%
On all amounts thereafter	0.35%

#### **FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)**

To the extent specifically requested by a client, Herbein *may* determine to provide financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone separate fee basis. Herbein's planning and consulting fees are negotiable, but generally range from \$2,000 to \$7,000 on a fixed fee basis, and from \$150 to \$275 on an hourly rate basis, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s). Prior to engaging Herbein to provide planning or consulting services, clients are generally required to enter into a *Financial Planning and Consulting Agreement* with Herbein setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the portion of the fee that is due from the client prior to Herbein commencing services. If requested by the client, Herbein may recommend the services of other professionals for implementation purposes, including its affiliated certified public accounting firm and/or Herbein's representative, Chiara A. Renninger, in her individual capacity as a licensed insurance agent. (*See* disclosure at Items 10.C.6 and 10.C.8 respectively). 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 Herbein. **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 Herbein if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Herbein's previous recommendations and/or services.

## MISCELLANEOUS

**Non-Investment Consulting/Implementation Services.** To the extent requested by the client, Herbein *may* provide consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. Neither Herbein, nor any of its representatives, serves as an attorney, and no portion of Herbein's services should be construed as same. To the extent requested by a client, Herbein may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance, etc.), including Herbein's representative, Chiara A. Renninger, in her individual capacity as a licensed insurance agent. 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 Herbein. **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 Herbein if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Herbein's previous recommendations and/or services.

**Dimensional Fund Advisors.** Herbein may purchase mutual funds sponsored by Dimensional Fund Advisors ("DFA") for client accounts. DFA funds are available exclusively through registered investment advisors, such as Herbein. Accordingly, upon termination of the *Investment Advisory Agreement*, DFA funds will be subject to sale unless they are retained in a Charles Schwab and Co., Inc. ("*Schwab*") account or transferred to another custodian able to hold DFA funds. Furthermore, the client shall not be able to purchase any additional shares of DFA funds, except through dividend reinvestment.

**Sub-Advisory Arrangements.** Herbein may engage sub-advisors for the purpose of assisting Herbein with the management of its client accounts. The sub-advisor(s) shall have discretionary authority for the day-to-day management of the assets that are allocated to it by Herbein. The sub-advisor shall continue in such capacity until such arrangement is terminated or modified by Herbein. Herbein shall pay a portion of the investment advisory fee received for these allocated assets to the sub-advisor for its sub-advisory services. Currently, Herbein recommends the fixed income investment management services of BAM Advisor Services, LLC, an SEC registered investment adviser. Herbein's Chief Compliance Officer, William A. Morgan, remains available to address any questions concerning Herbein's sub-advisory arrangements.

**BAM Advisor Services, LLC.** Herbein may contract with other firms for administrative services in carrying out its duties under this Agreement, including trade processing at the direction of Herbein, collection of management fees, record maintenance and report preparation, and Client agrees to execute a limited power of attorney in favor of such firms as required for them to carry out those services. Herbein intends to use BAM Advisor Services LLC for such services, plus research and marketing assistance. Client acknowledges that BAM Advisor Services LLC is acting only as a provider of Administrative services to Herbein and Herbein is responsible to Client for all investment advice provided pursuant to this Agreement. Herbein pays a fee for services based on the fees paid to Herbein on accounts that use BAM Advisor Services, LLC. There is no

additional charge to the client for these services.

**Client Obligations.** In performing its services, Herbein 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 Herbein if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Herbein's previous recommendations and/or services.

**Disclosure Statement.** A copy of Herbein'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. Herbein shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, Herbein shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at anytime, impose reasonable restrictions, in writing, on Herbein's services.
- D. Herbein does not participate in a wrap fee program.
- E. As of December 31, 2011, Herbein had \$193,768,421 in assets under management on a discretionary basis and \$31,376,775 in assets under management on a non-discretionary basis.

## **Item 5            Fees and Compensation**

- A. The client can determine to engage Herbein to provide discretionary investment advisory services on a *fee-only* basis.

The client can determine to engage Herbein to provide discretionary investment advisory services on a *fee-only* basis. Herbein's annual investment advisory fee is based upon a percentage (%) of the market value of the assets placed under Herbein's management (between 0.50% and 1.00%) as follows:

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\$3,000,000 - \$3,999,999	0.70%
\$4,000,000 - \$4,999,999	0.60%
More than \$5,000,000	0.50%

Herbein's annual investment advisory fee shall include investment advisory services, and, to the **extent specifically requested** by the client, financial planning and consulting services. In the event that the client requires extraordinary planning and/or consultation services (to be determined in the sole discretion of Herbein), Herbein may determine to

charge for such additional services, the dollar amount of which shall be set forth in a separate written notice to the client.

### **RETIREMENT CONSULTING**

Herbein also provides pension consulting services, pursuant to which it assists sponsors of self-directed retirement plans with the selection and/or monitoring of investment alternatives (generally open-end mutual funds) from which plan participants shall choose in self-directing the investments for their individual plan retirement accounts. In addition, to the extent requested by the plan sponsor, Herbein shall also provide participant education designed to assist participants in identifying the appropriate investment strategy for their retirement plan accounts. The terms and conditions of the engagement shall generally be set forth in a *Retirement Plan Consulting Agreement* between Herbein and the plan sponsor. Herbein's annual pension consulting fee is based upon a percentage (%) of the market value of the assets placed under Herbein's management (between 0.35% and 1.00%) as follows:

Assets Under Management	Annual Fee
On the first \$1,000,000	1.00%
On the next \$1,000,000	0.75%
On the next \$3,000,000	0.55%
On the next \$5,000,000	0.40%
On all amounts thereafter	0.35%

### **FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)**

To the extent specifically requested by a client, Herbein *may* determine to provide financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone separate fee basis. Herbein's planning and consulting fees are negotiable, but generally range from \$2,000 to \$7,000 on a fixed fee basis, and from \$150 to \$275 on an hourly rate basis, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s).

- B. Clients may elect to have Herbein's advisory fees deducted from their custodial account. Both Herbein's *Investment Advisory Agreement* and the custodial/ clearing agreement may authorize the custodian to debit the account for the amount of Herbein's investment advisory fee and to directly remit that management fee to Herbein in compliance with regulatory procedures. In the limited event that Herbein bills the client directly, payment is due upon receipt of Herbein's invoice. Herbein 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.
- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, Herbein shall generally recommend that Charles Schwab and Co., Inc. ("*Schwab*") serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as *Schwab* 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 Herbein's investment management 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). When beneficial to the client, individual fixed-income and/or equity transactions may be effected through broker-dealers with whom Herbein and/or the client have entered into arrangements for prime brokerage clearing services, including effecting certain client transactions through other various SEC registered and FINRA member broker-dealers (in which event, the client shall incur both the transaction fee charged by the executing broker-dealer and a “tradeaway” fee charged by *Schwab*).

- D. Herbein'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. Herbein generally requires an annual minimum annual fee of \$7,500 for investment advisory services. Herbein, in its sole discretion, may charge a lesser investment management fee and/or waive or reduce its minimum fee requirement based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

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

- E. Neither Herbein nor its representatives accept compensation for the sale of securities or other investment products.

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

Neither Herbein nor any supervised person of Herbein accepts performance-based fees.

## **Item 7            Types of Clients**

Herbein's clients shall generally include individuals, business entities, trusts, estates, charitable organizations, and pension and profit sharing plans. Herbein generally requires an annual minimum annual fee of \$7,500 for investment advisory services. Herbein, in its sole discretion, may charge a lesser investment management fee and/or waive or reduce its minimum fee requirement based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

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

- A. Herbein may utilize the following methods of security analysis:
- Modern Portfolio Theory – Herbein's investment approach is firmly rooted in the belief that markets are “efficient” and that investor's returns are determined primarily by asset allocation decisions, rather than market timing or security



selection. Herbein recommends diversified portfolios, principally through the use of passively managed mutual funds.

Herbein may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year) Herbein's investment philosophy is designed for investors who desire a buy and hold strategy, with an investment time horizon minimum of five years and preferably ten years or more.
- Short Term Purchases (securities sold within a year)

**Please Note: Investment Risk.** Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Herbein) will be profitable or equal any specific performance level(s).

- B. Herbein's methods of analysis and investment strategies do not present any significant or unusual risks.

However, every method of analysis has its own inherent risks. To perform an accurate market analysis Herbein must have access to current/new market information. Herbein has no control over the dissemination rate of market information; therefore, unbeknownst to Herbein, certain analyses may be compiled with outdated market information, severely limiting the value of Herbein's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

Herbein's primary investment strategies - Long Term Purchases and Short Term Purchases - are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy.

- C. Currently, Herbein primarily allocates client investment assets among various mutual funds and/or fixed income securities, on a discretionary basis in accordance with the client's designated investment objective(s).

## **Item 9            Disciplinary Information**

Herbein has not been the subject of any disciplinary actions.

## Item 10 Other Financial Industry Activities and Affiliations

- A. Neither Herbein, 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 Herbein, 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.

- 6. **Accountant and Accounting Firm.** Certain of Herbein's members are also shareholders in Herbein + Company, Inc. ("H+C"), a certified public accounting firm. Herbein **does not** render accounting advice or tax preparation services to its clients. Rather, to the extent that a client requires accounting advice and/or tax preparation services, Herbein, if requested, will recommend the services of H+C, all of which services shall be rendered independent of Herbein pursuant to a separate agreement between the client and H+C. Herbein shall not receive any of the fees charged by H+C, referral or otherwise. Although Herbein shall not receive referral fees from H+C, certain of Herbein's members, who individually own an interest in H+C shall be entitled to receive distributions relative to their respective ownership interests in H+C.

**Please Note:** The recommendation that a client engage H+C in its capacity as a certified public accounting firm, presents a ***conflict of interest***. No client is under any obligation to engage H+ C for accounting advice or tax preparation services. **Herbein's Chief Compliance Officer, William A. Morgan, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

- 8. **Licensed Insurance Agency/Agent.** Herbein is a dually licensed insurance agency. Additionally, Herbein's representative, Chiara A. Renninger, in her individual capacity, is a licensed insurance agent with various insurance companies and in such capacity may recommend the purchase of certain insurance products on a fully-disclosed basis. With respect to the purchase of any variable annuity, the client will also incur a charge imposed directly by the insurance company, the details of which will be presented to the client separately in connection with the sale of the insurance product.

- **Conflict of Interest:** The recommendation by any of Herbein's representative that a client purchase an insurance commission product presents a ***conflict of interest***, as the receipt of commissions may provide an incentive to recommend insurance products based on commissions to be received, rather than on a particular client's need. No client is under any obligation to purchase any commission products from Herbein or its representatives. Clients are reminded that they may purchase insurance products recommended by Herbein through other, non-affiliated insurance agents. **Herbein's Chief Compliance Officer, William A. Morgan, remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

- D. Herbein 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. Herbein maintains an investment policy relative to personal securities transactions. This investment policy is part of Herbein's overall Code of Ethics, which serves to establish a standard of business conduct for all of Herbein'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, Herbein also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by Herbein or any person associated with Herbein.

- B. Neither Herbein nor any related person of Herbein recommends, buys, or sells for client accounts, securities in which Herbein or any related person of Herbein has a material financial interest.
- C. Herbein and/or representatives of Herbein *may* buy or sell securities that are also recommended to clients. This practice may create a situation where Herbein and/or representatives of Herbein 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 Herbein 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 Herbein's clients) and other potentially abusive practices.

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

- D. Herbein and/or representatives of Herbein *may* buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where Herbein and/or representatives of Herbein 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, Herbein has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Herbein's Access Persons.

## Item 12 Brokerage Practices

- A. In the event that the client requests that Herbein recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct Herbein to use a specific broker-dealer/custodian), Herbein generally recommends that investment management accounts be maintained at *Schwab*. Prior to engaging Herbein to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with Herbein setting forth the terms and conditions under which Herbein shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that Herbein considers in recommending *Schwab* (or any other broker-dealer/custodian to clients) include historical relationship with Herbein, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by Herbein's clients shall comply with Herbein'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 Herbein 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 Herbein 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, Herbein's investment management fee. Herbein'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, Herbein may receive from *Schwab* (or another broker-dealer/custodian) without cost (and/or at a discount) support services and/or products, certain of which assist Herbein to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by Herbein 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 Herbein 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 Herbein in managing and administering client accounts. Others do not directly provide such assistance, but rather assist Herbein to manage and further develop its business enterprise.

Herbein'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 Herbein to *Schwab* 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.

**Herbein's Chief Compliance Officer, William A. Morgan, 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. Herbein does not receive referrals from broker-dealers.
3. Herbein 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 Herbein 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 Herbein. 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 Herbein 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 Herbein.

**Herbein's Chief Compliance Officer, William A. Morgan, remains available to address any questions that a client or prospective client may have regarding the above arrangement.**

- B. To the extent that Herbein provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless Herbein decides to purchase or sell the same securities for several clients at approximately the same time. Herbein may (but is not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among Herbein's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. Herbein shall not receive any additional compensation or remuneration as a result of such aggregation.

### Item 13      **Review of Accounts**

- A. For those clients to whom Herbein provides investment supervisory services, account reviews are conducted on an ongoing basis by Herbein's Principal and representatives. All investment supervisory clients are advised that it remains their responsibility to advise Herbein 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 Herbein on an annual basis.
- B. Herbein *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. Herbein may also provide a written periodic report summarizing account activity and performance.

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

- A. As referenced in Item 12.A.1 above, Herbein may receive an indirect economic benefit from *Schwab*. Herbein, without cost (and/or at a discount), may receive support services and/or products from *Schwab*.

Herbein'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 Herbein to *Schwab* 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.

**Herbein's Chief Compliance Officer, William A. Morgan, 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 any such arrangement may create.**

- B. If a client is introduced to Herbein by either an unaffiliated or an affiliated solicitor, Herbein *may* pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from Herbein's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to Herbein by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of his/her/its solicitor relationship, and shall provide each prospective client with a copy of Herbein's written Brochure with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between Herbein and the solicitor, including the compensation to be received by the solicitor from Herbein.

## **Item 15           Custody**

Herbein 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. Herbein may also provide a written periodic report summarizing account activity and performance.

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

## **Item 16           Investment Discretion**

The client can determine to engage Herbein to provide investment advisory services on a discretionary basis. Prior to Herbein assuming discretionary authority over a client's account, client shall be required to execute an *Investment Advisory Agreement*, naming Herbein as client's attorney and agent in fact, granting Herbein 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 Herbein on a discretionary basis may, at anytime, impose restrictions, **in writing**, on Herbein'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 Herbein's use of margin, etc.).

## **Item 17           Voting Client Securities**

- A. Herbein does not vote client proxies. Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially 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 Herbein to discuss any questions they may have with a particular solicitation.

**Item 18      Financial Information**

- A. Herbein does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. Herbein 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. Herbein has not been the subject of a bankruptcy petition.

**ANY QUESTIONS: Herbein's Chief Compliance Officer, William A. Morgan, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**