

# **Legal Advantage Investments, Inc.**

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**3-8-2012**

**FORM ADV PART 2A**

**BROCHURE**

**This Brochure provides information about the qualifications and business practices of Legal Advantage Investments, Inc. If you have any questions about the contents of this Brochure, please contact us at the phone number listed above. 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 our firm is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Legal Advantage Investments, Inc. is 118131.**

**Legal Advantage Investments, Inc. is a registered investment adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.**

## Item 2 Material Changes

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Generally, Legal Advantage Investments, 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. In either case, we will notify our clients in a separate document.

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## Item 4 Advisory Business

### Description of Services and Fees

Legal Advantage Investments, Inc. is a registered investment adviser primarily based in Los Altos, California. We are organized as a corporation under the laws of the State of California. We have been providing investment advisory services since 1993. David Spector is our principal owner. Currently, we offer the following investment advisory services, which are personalized to each individual client:

- **Continuous Portfolio Management Services**
- **Periodic Management Services**
- **Investment Recommendation Services**
- **Financial Planning Services**

The following paragraphs describe our services and fees. Please refer to the description of each investment advisory service listed below for information on how we tailor our advisory services to your individual needs. As used in this Brochure, the words "we", "our" and "us" refer to Legal Advantage Investments, Inc. and the words "you", "your" and "client" refer to you as either a client or prospective client of our firm. Also, you may see the term Associated Person throughout this Brochure. As used in this Brochure, our Associated Persons are our firm's officers, employees, and all individuals providing investment advice on behalf of our firm.

We use the terms "we" and "our" throughout this disclosure Brochure to refer to David Spector. The use of these terms is not intended to imply that there is more than one individual associated with this firm providing investment advice to clients.

### Continuous Portfolio Management Services

We offer discretionary portfolio management services. Our investment advice is tailored to meet our clients' needs and investment objectives. If you retain our firm for portfolio management services, we will meet with you in person or by telephone conference 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 that we believe are in your best interests. Once we construct an investment portfolio for you, or select a model portfolio, we will monitor your portfolio's performance and will adjust the portfolio as required by changes in market conditions and in your financial circumstances.

As part of our portfolio management services, you select one of the following growth strategy models for our management of the stock portion of your account:

The *Legal Advantage Hedge Strategy* may establish both long and short positions in individual stocks. These positions may be held as long-term investments or as short term trades, as we see fit. Accounts managed pursuant to this strategy will often not be highly diversified and may also engage in margin transactions. If you pursue this strategy, you may also provide written instructions authorizing us to purchase or sell options on individual equity securities and/or market indices for your account. Accounts managed under this strategy may also hold cash reserves, invest in fixed income instruments, and in closed-end or open-end mutual funds. While we intend that the short positions in this account will to some extent hedge the market risk inherent in the long positions, this should be considered our most high-risk strategy.

The *Legal Advantage Growth Strategy* may establish long positions in individual stocks similar to those in the Legal Advantage Hedge Strategy, but will not engage in short sales, purchases on margin, or trading in options. No single position shall account for more than fifteen percent (15%) of an account's assets at the time of purchase. Accounts managed under this strategy may also hold cash reserves, invest in fixed income instruments, and in closed-end or open-end mutual funds.

The *Legal Advantage Growth and Income Strategy* may establish long positions in individual stocks with a principal goal of capital appreciation and a secondary goal of producing some current income. Accounts managed under this strategy will not engage in short sales, purchases on margin, or trading in options. No single position shall account for more than fifteen percent (15%) of an account's assets at the time of purchase. Of the portion of such accounts invested in stocks (as opposed to cash, mutual funds, or fixed income instruments) at least thirty percent (30%) shall be invested in stocks paying at least some regular dividend. Accounts managed under this strategy may also hold cash reserves, invest in fixed income instruments, and in closed-end or open-end mutual funds.

We also provide *Managed Mutual Fund Portfolios*, which may consist of all or just a portion of your account and may consist of either open-end or closed-end mutual funds or a combination thereof. Mutual funds will be selected to create an overall portfolio designed to meet your investment goals based upon discussion with you or more detailed financial planning work, for which there will generally be a separate fee charged. Where an account contains a portion managed according to one of the individual stock strategies discussed above, and a mutual fund portion, the mutual fund portion will be designed with the stock portion in mind, so as to provide you with an overall asset allocation that we believe is appropriate. Mutual fund portions of accounts may also hold cash reserves, but will not generally invest in individual stocks or bonds (although such securities in the account at the time it is transferred to our management may remain in the account at our discretion).

While managed accounts will generally follow one of the above models that you select, you may submit for management existing portfolios containing securities that may not fit within one of the above categories, with the understanding that the portfolio will be restructured over time to more closely model one of the above strategies.

You may also direct us in writing to not purchase certain specified securities for your account. For example, you may wish to provide such instructions when you have a relationship with a public company and believe it is inappropriate to hold any securities of such company in your account. We will not render any opinion regarding such issues and, other than using our best efforts to follow your written instructions upon actual receipt, we will have no responsibility to further investigate such issues. We will of course attempt to contact you if we believe we will be unable to follow your written instructions you submit. If you are concerned about any such potential liability arising from the improper ownership or trading of securities in companies with whom you may have a special relationship, you should consult legal counsel.

Not every account managed pursuant to one of the above strategies will contain the same securities. As issues such as the liquidity needs or investment goals of individual clients, the valuation and trading liquidity of certain securities at the time an account is opened or money is deposited or withdrawn, and the nature of securities transferred from a pre-existing account will affect the actual holdings of a particular account.

In addition to managing assets pursuant to the above portfolio strategies, the Advisor may offer certain clients the opportunity to participate in investments based on special analysis concerning companies involved in significant legal or regulatory matters. The number of clients allowed to participate in such high-risk investments will be sharply limited due to the limited liquidity and high volatility often associated with the securities of such companies. An additional fee equal to an agreed percentage of the assets to be eligible for such investments will be negotiated with such clients on an individual basis, and there is currently no standard schedule.

If you participate in our discretionary portfolio management services, we require you to grant our firm discretionary authority to manage your account. Discretionary authorization will allow our firm to determine the specific securities, and the amount of securities, to be purchased or sold for your account without your approval prior to each transaction. Discretionary authority is typically granted by the investment advisory agreement you sign with our firm. You may limit our discretionary authority with respect to specifically identified securities only (not by industry group or class of securities) that will not be purchased for your account by providing our firm with your restrictions and guidelines in writing as described above.

### **Portfolio Management Fees**

Our standard fee schedule for client portfolios managed pursuant to the *Legal Advantage Growth Strategy* or the *Legal Advantage Growth and Income Strategy* is two percent (2%) annually on the first \$100,000 of assets, and one percent (1%) annually on account assets above \$100,000.

Notwithstanding the above, for any quarter at the end of which assets under management exceed \$1,000,000, the fee on the first \$100,000 of assets shall be reduced to one percent (1%) annually, so that any client choosing one of the above Strategies with between \$1,000,000 and \$5,000,000 in assets under management will pay a flat fee of 1% annually. For Managed Mutual Fund Portfolios, the standard fee is one percent (1%) annually. Assets under management above \$5,000,000 are charged at a discounted rate of eight-tenths of one percent (0.8%) annually. Fees on portfolios are negotiable, depending on the assets involved and the amount of work we anticipate the account will require. We may lower the fee on large cash holdings or other special security holdings, either permanently or temporarily, upon written agreement with you. We may, in our sole discretion, charge lower fees or offer services "pro bono" to certain persons based upon their financial circumstances and/or other factors.

Our standard fee schedule for the *Legal Advantage Hedge Strategy* is 2.35% annually on the first \$100,000 of assets, 1.35% annually on account assets above \$100,000 up to \$5,000,000, and 0.80% annually on assets above \$5,000,000. Notwithstanding the above, for any quarter at the end of which assets under management exceed \$1,000,000, the fee on the first \$100,000 of assets shall be reduced to 1.35% annually, so that any client with between \$1,000,000 and \$5,000,000 in assets under management who elects the *Legal Advantage Hedge Strategy* will pay a flat fee of 1.35% annually.

The higher annual fee for the *Hedge Strategy* on the first \$5,000,000 of account assets relative to Advisor's other strategies is intended to compensate Advisor for the additional time and effort involved in trading on margin, buying or selling options, and selling securities short as allowed under this strategy. In addition, the supply of stock available to sell short is sometimes limited, and Advisor believes it is appropriate to charge an additional fee for access to such opportunities.

When a client has multiple brokerage accounts managed by advisor such as a taxable account and a tax-deferred account (like an IRA account), advisor will manage the accounts together as an overall investment portfolio. Each individual account may well not be diversified, as the advisor will consider tax and other implications in deciding in which account to place each given investment while focusing on achieving the desired diversification and asset mix for the client (depending on the investment strategy chosen, advisor's knowledge of the client, and advisor's discretion) across all the accounts taken in aggregation. Therefore, client (except in special cases agreed to in advance by advisor) will choose a single investment strategy (and fee structure) described above that will apply to all of that client's accounts managed by advisor.

Account management fees are billed quarterly in arrears. Thus, for example, on a *Legal Advantage Growth Strategy* portfolio worth \$500,000 at the end of a quarter, a fee of one-half of one percent (0.5%), or \$500, is charged on the first \$100,000 of assets, and a fee of one quarter of one percent (0.25%), or \$1,000, is charged on the remaining \$400,000 of assets. The total quarterly fee on such a portfolio would therefore be \$1,500.

A new client generally must place a minimum of \$1,500,000 in assets under management before we will manage accounts for that client pursuant to one of our individual stock strategies discussed above. The assets may be divided between several different client accounts, such as a taxable account and an IRA account. The minimum assets required from a new client for accounts investing solely in mutual funds (a "Managed Mutual Funds Portfolio") is \$750,000. We may, in our sole discretion, waive the minimum initial assets requirement in selected cases.

Fees are pro-rated for accounts established or terminated in the middle of a quarter, based upon the account value at the end of the quarter or upon the termination date, respectively. Fees on mid-quarter Client withdrawals or deposits are also pro-rated (except with managed company retirement plans). You may terminate the portfolio management agreement at any time by giving us written notice at least fifteen (15) days in advance of the termination date. You will then receive a final bill for management services pro-rated based upon the termination date.

Payment of fees will be due and payable by the client upon receipt of Advisor's invoice, except that clients who so choose may elect to instead have fees debited directly from their managed account by the custodian holding the client's funds and securities. However, three criteria must be met when payment is to be made directly by the custodian: (1) the client must have provided written authorization permitting the fees to be paid directly from the client's account held by the independent custodian, (2) Legal Advantage Investments, Inc. will send to the client, at approximately the same time as a fee invoice is sent to the custodian, a bill showing the amount of the fee being debited from client's account, the value of the client's assets on which the fee was based, and the manner in which the fee was calculated, and (3) the custodian will send statements to the client (at least quarterly, but usually monthly) which indicate all amounts disbursed from the account including the amount of advisory fees paid directly to Legal Advantage Investments, Inc.

### **Periodic Management Services**

For select smaller accounts consisting almost entirely of mutual funds for which the client does not desire continuous management by our firm, we offer consulting services where we monitor your account and adjust it on a periodic basis. We will negotiate a flat quarterly fee payable in arrears for this service that generally will not exceed 1.0% annually of the assets being periodically reviewed.

### **Investment Recommendation Services**

This service is designed for our existing portfolio management clients where we currently manage a portion of their assets on a continuous basis, but the client also has a retirement portfolio, such as a 401(k), that requires periodic monitoring and recommendation services.

We offer periodic advice regarding your investments in various company retirement plans having a third party administrator (such as Fidelity, TIAA-CREF or Vanguard) as an optional add-on to your continuous portfolio management services. Under this service we do not take discretionary authority over your retirement plan accounts, but rather recommend periodic changes in your investment choices that it is your responsibility to implement should you choose to do so.

Currently, such third party administrators often do not provide an easy means for an Advisor to download information about client plan accounts into an Advisor's portfolio tracking software. In such cases, we will inform you, and you will agree, that you will rely upon the third party administrator performance information on such plans, and the Advisor's role shall be limited to choosing a mix of investments for the client from among those offered by the plan that Advisor believes are most appropriate to meet client's investment goals, and reviewing such investments quarterly or more often. Since we do not track such plan accounts in our computer system or provide detailed performance information on such accounts, and will only monitor such investments periodically, we charge a flat quarterly consulting fee, payable in arrears, for such services. Our fee for this optional add-on investment recommendation service is negotiable depending on the size and complexity of the investment choices in the retirement plan, but will generally be less than 1% annually of the value of the retirement account assets and will not exceed \$1,000 per quarter. This fee is combined with the portfolio management fee and listed as a consulting fee on your invoice.

## **Financial and Estate Planning Evaluations; Other Financial Advice**

Generally, we offer financial planning and other advice only to existing or prospective portfolio management clients. Our client contracts specify a certain amount of our time per quarter that is included in the portfolio management fee and can be used for financial planning advice related to the assets under management. This time is non-cumulative and therefore cannot be carried over to the next quarter.

Should requested financial planning advice exceed the scope of services included in the client contract, or should we agree to offer such services to someone other than a current portfolio management client, then we will perform such services and make recommendations at a fixed point in time for a fixed negotiable fee or on an hourly basis. If the services are for a fixed fee, a payment of \$300 or one-third of the agreed fee, whichever is less, shall be required at the time of commencement of the project. The balance shall be due upon completion or in installments based upon the work completed, as negotiated and recorded in the written client contract. If the services are to be compensated for on an hourly basis, payment shall be due at the end of each month for time billed to date. Our standard hourly rate is \$300, although portfolio management clients will generally get a discounted rate as specified in their advisory contract.

Services offered for a fixed fee or hourly payment will terminate once we deliver a final report and final bill, unless the client contract specifically provides otherwise. Unless expressly agreed to in the client contract, Advisor assumes no obligation to update any financial advice after delivery of a final report.

Advisor's financial planning advice may cover some or all of the following areas:

- Estate Planning and Wealth Transfer
- Tax Planning
- Employee Stock Option Planning
- Retirement Planning
- Education Savings Planning
- Insurance Planning
- Budget and Debt Management

A general Financial Planning Review requires you to complete a questionnaire detailing your current assets and liabilities, future earnings power, information on current and potential dependents, planning goals and other related matters. Questions concerning all of the above listed areas of financial planning will generally be included in order to pinpoint areas needing further attention. There will be an initial meeting or telephone conversation to discuss issues raised by the questionnaire, after which we will prepare an overview containing recommendations for consideration or action. A final meeting or phone conversation will be held to discuss this written report.

An Estate Planning Review involves a review of your existing estate plan, including ownership of assets, gifting program, and existing will or trust documents in light of your estate planning goals as determined through the completed questionnaire or direct conversation. Various mechanisms of family wealth transfers, such as grantor and charitable trusts, trusts or custodial accounts for minors, family limited partnerships, and others, may be discussed as deemed appropriate. A report containing recommendations to be considered and discussed with an estate-planning attorney will be prepared. We do not prepare legal documents and we will specifically instruct you to consult with your attorney to discuss how and whether to implement any of our recommendations.



An Education Savings Plan Review will determine an estimated amount of future dollars needed for the education goals specified by you. Various vehicles for meeting these goals, such as 529 plans, Coverdell Education Savings Accounts (formerly Education IRAs), Hope and Lifetime Learning Credits, student loans, withdrawals from IRA accounts, education savings bonds, custodial accounts for minors, and others may be discussed. Financial aid eligibility may also be discussed.

A Retirement Planning Review will help you determine the amount needed to fund your desired retirement lifestyle, and help develop a plan to save and invest appropriately to meet those needs. Related issues, such as replacement health insurance for early retirees, and how to handle employer pension and stock option issues upon retirement, may also be discussed.

If you wish to limit the focus of a review to a particular investment portfolio, an Investment Strategy Review may be appropriate and less expensive. Based upon your questionnaire responses and a review of the assets in the specified portfolio, we will prepare a written report discussing appropriate investment goals, recommended portfolio allocation, analysis of current assets and whether they meet your investment goals, and specific recommendations of portfolio changes designed to better meet those goals.

We may also offer to conduct research or render advice related to any specified investment or financial planning issue for an hourly fee.

You should be aware that services comparable to those provided by us are available from sources other than our firm and that some providers of comparable services may charge lower fees for such services than we do.

### **Types of Investments**

We primarily offer advice on equity securities, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities, US Government securities, options contracts on securities and indices, and others. We may also offer advice on investments in real estate, mortgages, or mortgage-backed securities.

Additionally, we may advise you on any type of investment that we deem appropriate based on your stated goals and objectives. We may also provide advice on any type of investment held in your portfolio at the inception of our advisory relationship.

You may request that we refrain from investing in particular securities. You must provide these restrictions to our firm in writing and we will use best efforts to implement them.

### **Assets Under Management**

As of December 31, 2012, we manage \$36,942,133 in client assets on a discretionary basis. We currently do not provide continuous management of any assets on a non-discretionary basis.

## **Item 5 Fees and Compensation**

Please refer to the "Advisory Business" section in this Brochure for information on our advisory fees and fee deduction arrangements to each service we offer.

### **Additional Fees and Expenses**

As part of our investment advisory services to you, we may invest, or recommend that you invest, in mutual funds and exchange traded funds. The fees that you pay to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds or exchange traded funds (described in each fund's prospectus) to their shareholders. These fees will generally include a management fee and other fund expenses. You will also incur transaction charges and/or brokerage fees when purchasing or selling securities. These charges and fees are typically imposed by the broker-dealer or custodian through whom your account transactions are executed. Other than through the "soft dollar" arrangement described below in the section on

brokerage practices, we do not share in any portion of the brokerage fees/transaction charges imposed by the broker-dealer or custodian. 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.

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

Currently, we do not accept performance-based fees or participate in side-by-side management. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees. Performance-based fees are fees that are based on a share of capital gains or capital appreciation of a client's account. Our fees are calculated as described in the *Advisory Business* section above, and are not charged on the basis of a share of capital gains upon, or capital appreciation of, the funds in your advisory account.

Please contact us if you have any questions about performance-based fees and/or side-by-side management.

## **Item 7 Types of Clients**

We offer investment advisory services to individuals, trusts, estates, and charitable organizations.

A new client generally must place a minimum of \$1,500,000 in assets under management before we will manage accounts for that client pursuant to one of our individual stock strategies discussed above. The assets may be divided between several different client accounts, such as a taxable account and an IRA account. The minimum assets required from a new client for our managed mutual fund portfolio is \$750,000. We may, in our sole discretion, waive the minimum initial assets requirement in selected cases.

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

### **Our Methods of Analysis and Investment Strategies**

We may use one or more of the following methods of analysis or investment strategies when providing investment advice to you:

- **Fundamental Analysis** - involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product line, the experience and expertise of the company's management, and the outlook for the company's industry. The resulting data is used to measure the true value of the company's stock compared to the current market value.
- **Technical Analysis** - involves studying past price patterns and trends in the financial markets to predict the direction of both the overall market and specific stocks.
- **Long Term Purchases** - securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.
- **Short Term Purchases** - securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations.
- **Short Sales** - a securities transaction in which an investor sells securities he or she borrowed in anticipation of a price decline. The investor is then required to return an equal number of shares at some point in the future. A short seller will profit if the stock goes down in price.
- **Margin Transactions** - a securities transaction in which an investor borrows money to purchase a security, in which case the security serves as collateral on the loan.

- Options - Options are complex securities that *involve risks and are not suitable for everyone. Option trading can be speculative in nature and carry substantial risk of loss. It is generally recommended that you only invest in options with risk capital.* An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an underlying asset at a specific price on or before a certain date (the "expiration date"). The two types of options are calls and puts:
  - A call gives the holder the right to buy an asset at a certain price within a specific period of time. Calls are similar to having a long position on a stock. Buyers of calls hope that the stock will increase substantially before the option expires.
  - A put gives the holder the right to sell an asset at a certain price within a specific period of time. Puts are similar to having a short position on a stock. Buyers of puts hope that the price of the stock will fall before the option expires.

In addition to traditional fundamental and technical analysis, we may analyze ongoing legal or regulatory matters and may make investments based upon such analysis. In addition to traditional sources of investment information, we may also utilize publicly available and accessible court and regulatory agency filings, documents, proceedings, or announcements. Due to the anticipated higher costs in effectively monitoring such investments, as well as the often limited liquidity and high volatility of the securities of companies involved in significant legal or regulatory matters, investments based on such analysis will not generally be made in standard client accounts. However, we may offer clients willing to pay an additional fee based on the amount of assets involved the opportunity to participate in such investments. There is currently no fee schedule for such investment advice, and fees for such services will be negotiable on an individual basis.

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.

Technical Analysis - One risk of market timing based on technical analysis is that charts may not accurately predict future price movements. Current prices of securities may reflect all information known about the security and day to day changes in market prices of securities may follow random patterns and may not be predictable with any reliable degree of accuracy. Technical analysis may work better for some securities than for others, or better under certain market conditions than under other market conditions.

Fundamental Analysis - The risk of fundamental analysis is that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.

Our strategies and investments may have unique and significant tax implications. Total return rather than tax efficiency is generally our primary consideration in the management of your assets, but we do take taxation issues we are made aware of into consideration as one factor in our account management. We will often consider the tax implications of an investment in evaluating whether it is desirable for a client and in determining whether or not to place it in a taxable or tax deferred account. We will provide certain tax information (such as realized capital gains information) about your account we believe to be accurate as a courtesy, at no additional charge, as specified in your client contract. However, we do not prepare tax returns for clients nor should clients rely on such information to always be error free. You or your tax advisor must review such information to make sure it conforms with your records. 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 will begin reporting the cost basis of equities acquired in client accounts on or after January 1, 2011. As your advisor, we will advise your custodian to change your accounting method to the highest cost method if we believe this account method is suitable for you for calculating the cost basis of your investments. 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.

### **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 what may be significant losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met, other than that we will use our best efforts to meet them. Past performance is in no way an indication of future performance.

### **Recommendation of Particular Types of Securities**

As disclosed under the "Advisory Business" section in this Brochure, we recommend all types of securities and we do not necessarily recommend one particular type of security over another since each client has different needs and different tolerance for risk. Each type of security has its own unique set of risks associated with it and it would not be possible to list here all of the specific risks of every type of investment. Even within the same type of investment, risks can vary widely. However, in very general terms, the higher the anticipated return of an investment, the higher the risk of loss associated with it.

## **Item 9 Disciplinary Information**

Legal Advantage Investments, Inc. has been registered and providing investment advisory services since 1993, and David Spector has been registered as either an investment adviser representative or registered representative since 1993. Neither our firm nor David Spector has any reportable disciplinary information.

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

We have not provided information on other financial industry activities and affiliations because we do not have any relationship or arrangement that is material to our advisory business or to our clients with any of the types of entities listed below.

1. broker-dealer, municipal securities dealer, or government securities dealer or broker
2. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund)
3. other investment adviser or financial planner
4. futures commission merchant, commodity pool operator, or commodity trading advisor
5. banking or thrift institution
6. accountant or accounting firm
7. lawyer or law firm
8. insurance company or agency
9. pension consultant
10. real estate broker or dealer
11. sponsor or syndicator of limited partnerships

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

### **Description of Our Code of Ethics**

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for our Associated Persons. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All of our Associated Persons are expected to adhere strictly to these guidelines. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm.

Clients or prospective clients may obtain a copy of our Code of Ethics by contacting us at the telephone number on the cover page of this Brochure.

### **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.

### **Personal Trading Practices**

Our firm or persons associated with our firm may buy or sell the same securities that we recommend to you or securities in which you are already invested. 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 our Associated Persons nor we shall have priority over your account in the purchase or sale of securities.

## **Item 12 Brokerage Practices**

In most cases, we currently recommend the brokerage and custodial services of TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade"), an unaffiliated SEC-registered securities broker-dealer and a member of FINRA/SIPC/ NFA. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. Advisor receives some benefits from TD Ameritrade through its participation in the Program. We believe that TD Ameritrade provides quality execution services for your account 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 TD Ameritrade, including the value of research provided, the firm's reputation, execution capabilities, commission rates, and responsiveness to our clients and our firm. In recognition of the value of research services and additional brokerage products and services we receive from TD Ameritrade, you may pay higher commissions and/or trading costs than those that may be available elsewhere.

We participate in the TD Ameritrade Institutional program through which we receive some benefits from TD Ameritrade. There is no direct link between our participation in the program and the investment advice we provide to you, although we do receive economic benefits through our 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 that either may be closed to retail investors or are only available with higher transaction fees or expense ratios, access to certain institutional money

managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to our firm by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by our associated persons. Some of the products and services made available by TD Ameritrade through the program may benefit our firm and/or associated persons but may not benefit you or your accounts. These products or services may assist our firm in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help us manage and further develop our business enterprise. The benefits we receive through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of our fiduciary duty to clients, we endeavor at all times to put the interests of our clients first. You should be aware; however, that the receipt of economic benefits by our firm or our associated persons itself creates a conflict of interest and may indirectly influence our choice of TD Ameritrade for custody and brokerage services.

Generally, in addition to a broker's ability to provide "best execution," we may also consider the value of "research" or additional brokerage products and services a broker-dealer has provided or may be willing to provide. This is known as paying for those services or products with "soft dollars." Because many of the services or products could be considered to provide a benefit to the firm, and because the "soft dollars" used to acquire them are client assets, the firm could be considered to have a conflict of interest in allocating client brokerage business: it could receive valuable benefits by selecting a particular broker or dealer to execute client transactions and the transaction compensation charged by that broker or dealer might not be the lowest compensation the firm might otherwise be able to negotiate. In addition, the firm could have an incentive to cause clients to engage in more securities transactions than would otherwise be optimal in order to generate brokerage compensation with which to acquire products and services.

The firm's use of soft dollars is intended to comply with the requirements of Section 28(e) of the Securities Exchange Act of 1934. Section 28(e) provides a "safe harbor" for investment managers who use commissions or transaction fees paid by their advised accounts to obtain investment research services that provide lawful and appropriate assistance to the manager in performing investment decision-making responsibilities. As required by Section 28(e), the firm will make a good faith determination that the amount of commission or other fees paid is reasonable in relation to the value of the brokerage and research services provided. That is, before placing orders with a particular broker, we generally determine, considering all the factors described below, that the compensation to be paid to TD Ameritrade is reasonable in relation to the value of all the brokerage and research products and services provided by TD Ameritrade. In making this determination, we typically consider not only the particular transaction or transactions, and not only the value of brokerage and research services and products to a particular client, but also the value of those services and products in our performance of our overall responsibilities to all of our clients. In some cases, the commissions or other transaction fees charged by a particular broker-dealer for a particular transaction or set of transactions may be greater than the amounts another broker-dealer who did not provide research services or products might charge.

The products and services we receive from TD Ameritrade will generally be used in servicing all of our clients' accounts. Our use of these products and services will not be limited to the accounts that paid commissions to the broker-dealer for such products and services.

### **Directed Brokerage**

In limited circumstances, and at our discretion, some clients may instruct our firm to use one or more particular brokers for the transactions in their accounts. If you choose to direct our firm to use a particular broker, you should understand that this likely will prevent our firm from aggregating trades with other client accounts or from effectively negotiating brokerage commissions on your behalf. Trades at brokerages other than TD Ameritrade will generally be placed by our firm on your behalf (and therefore executed) shortly after the execution of any aggregated block trades of the same security at TD Ameritrade. This practice may also prevent our firm from obtaining favorable net price and execution. Thus, when directing brokerage business, you should consider whether



the commission expenses, execution, clearance, and settlement capabilities that you will obtain through your broker are adequately favorable in comparison to those that we would otherwise obtain for you.

### **Block Trades**

Transactions for each client will be effected independently unless we decide to purchase or sell the same securities for several accounts at approximately the same time. We may, but are not obligated to, combine multiple orders for shares of the same securities purchased for multiple accounts we manage (this practice is commonly referred to as "block trading"). We will then distribute a portion of the shares to participating accounts in a fair and equitable manner. The distribution of the shares purchased is typically proportionate to the size of the account and/or the amount of cash available in the account, but it is not based on account performance or the amount or structure of management fees. Subject to our discretion regarding factual and market conditions, when we combine orders, each participating account pays an average price per share for all transactions. Accounts owned by our firm or persons associated with our firm will often be included in such block trades with client accounts (thereby getting the same execution price as clients), so long as the advisor believes market liquidity is sufficient to execute the block trade. Should a block trade be only partially filled, no shares will be allocated to non-client accounts unless all client account orders included in the block have been filled in full.

## **Item 13 Review of Accounts**

David Spector reviews all managed accounts regularly to determine if he believes any changes should be made. Individual securities are generally monitored daily using computer software that tracks trading and news alerts on a real-time basis. Mutual funds and retirement assets held at third party administrators are reviewed at least quarterly.

Managed accounts (other than retirement accounts tracked by third party administrators) are generally tracked using Captool portfolio management software. This software enables our firm to provide regular investment performance reports and assist in preparing other client requested reports.

Other services offered by our firm, such as financial and estate plan reviews, generally terminate upon delivery of the plan and receive no ongoing reviews. Clients may arrange for periodic reviews in such cases on an hourly fee basis or a fixed fee basis per review. We recommend that you review your financial goals with us at least annually.

All clients will receive regular statements from the brokerage firms holding custody of their funds detailing monthly transactions and the account balance at the end of the statement period. In addition, Applicant shall provide quarterly reports to all clients having at least \$500,000 under Applicant's management at the end of the quarter. These reports will provide detailed performance information, the quarterly invoice, and a cover letter that discusses information Applicant deems relevant to the client. Clients having less than \$500,000 under management at the end of a quarter will also receive a copy of their fee invoice quarterly at the time of billing, but Applicant may choose to send detailed performance information and other written communications to such clients less frequently. These smaller clients will receive detailed performance information from the Applicant at least annually.

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

We do not receive any compensation from any third party in connection with providing investment advice to you nor do we compensate any individual or firm for client referrals.

If appropriate, we may refer you to outside, non-affiliated parties, such as mortgage brokers, accountants, lawyers, and others. In some instances, we may have a pre-existing relationship with these outside parties, which we will disclose to you at the time of the referral. We do not receive any compensation for any referrals.

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.

## **Item 15 Custody**

Your client contract gives you the option of paying our fees directly yourself upon invoice, or of having our fees directly debited from your brokerage account by your independent custodian. Please see your client contract for a more detailed discussion of these alternatives.

If you choose to have our fees directly debited from your brokerage account, your independent custodian, as paying agent for our firm, 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 qualified custodian. You will receive account statements from the 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 fee deducted from your account.

You should compare our statements with the statements from your account custodian(s) to reconcile the information reflected on each statement. If you have a question regarding your account statement or if you did not receive a statement from your custodian, please contact us directly at the telephone number on the cover page of this Brochure.

## **Item 16 Investment Discretion**

If we provide you portfolio management services, you are required to grant our firm discretion over the selection and amount of securities to be purchased or sold for your account(s) without obtaining your consent or approval prior to each transaction. You may specify investment limitations with respect to specific securities in writing. Please refer to the "Advisory Business" section in this Brochure for more information on our discretionary management services.

If you enter into non-discretionary arrangements with our firm, we will obtain your approval prior to the execution of any transactions for your account(s). You have an unrestricted right to decline to implement any advice provided by our firm on a non-discretionary basis.

## **Item 17 Voting Client Securities**

### **Proxy Voting**

We will not vote proxies on behalf of your advisory accounts. At your request, we may offer you advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of common stock or mutual funds, you are responsible for exercising your right to vote as a shareholder.

In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case, we would forward any electronic solicitation to vote proxies.



## 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.

## Item 20 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, attorneys and third party software providers.

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.

### 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. At our discretion, we may assist clients in filing claims in class action lawsuits that have been brought to our attention.