

## **J M Brown & Associates, Inc.**

### **Disclosure Brochure**

**05 May 2012**

#### ***Item 1 – Cover Page***

This brochure provides information about the qualifications and business practices of J M Brown & Associates, Inc. (“JMB” or “Advisor”), its owner Ronald Brown and staff.

If you have any questions about the contents of this brochure, please contact us at (918) 496-5460 or [ron@perfectcalendar.com](mailto:ron@perfectcalendar.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.

J M Brown & Associates, Inc. is a Registered Investment Advisor. Registration as an Investment Advisor does not imply any level of skill or training. This disclosure document is designed to grant current clients as well as potential clients the opportunity to carefully read and establish an understanding of the various investment advisory services that are offered and the respective fees and expenses of those services. The information contained in this document is important to the conduct of both parties entering an advisory contract. While investment advisors have a fiduciary duty to put the needs of clients before their own, clients likewise have a duty to investigate and maintain a basic understanding of the services offered by the Advisor. We hope this document serves as a leading educational tool to aid clients and prospective clients in understanding how J M Brown & Associates, Inc. conducts investment advisory services.

**J M Brown & Associates, Inc.**

7060 South Yale, Suite 701

Tulsa, OK 74136-5740

(918) 496-5460

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

[ron@perfectcalendar.com](mailto:ron@perfectcalendar.com)

## ***Item 2- Material Changes***

J M Brown & Associates, Inc. prepared its first disclosure brochure on March 15, 2011 pursuant to the United States Securities and Exchange Commission's "Amendments to the disclosure brochure" published on July 28, 2010 and distributed it to our clients. This brochure dated November 22, 2011 replaces the original brochure.

This portion of the brochure discusses specific material changes that were made to the brochure dated March 15, 2011. J M Brown & Associates, Inc. was formed in June 30, 2000 by James Brown CFP®. Since joining the firm, Ronald Brown has been working together with James Brown CFP® as business partners for nearly a decade. At the time Ronald Brown joined the firm, a succession plan was created where Ronald Brown would one day take over the practice. Both partners have begun the execution of this succession plan and as of November 2011, Ronald Brown became President and sole owner of J M Brown & Associates, Inc. James Brown CFP® will remain a valuable resource to the practice.

Prior to December 31, 2011, all of the Investment Advisor Representatives of J M Brown & Associates, Inc. were also registered representatives of Askar Corp., a registered broker/dealer. Askar Corp. ceased operations on December 31, 2011 as Askar Corp.'s founder and principal shareholder decided to focus exclusively on servicing his clients and affiliate with another broker/dealer. Consequently, since January 2012 Ronald Brown, who is an Investment Adviser Representative of JMB, became a registered representative of Purshe Kaplan Sterling Investments ("PKS"), a registered broker/dealer, member FINRA/SIPC.

Additional information about J M Brown & Associates, Inc. is also available via the SEC web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC web site also provides information about any persons affiliated with J M Brown & Associates, Inc. who are registered as investment adviser representatives of JMB.

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#### ***Item 4 – Advisory Business***

J M Brown & Associates, Inc. was formed in June 30, 2000 and is a corporation organized in the State of Oklahoma. Ronald Brown is the President and sole owner. J M Brown & Associates, Inc. was registered with the SEC in 2010, but due to the newly implemented registration requirements for 2011, is in the process of transitioning that registration to the State of Oklahoma.

J M Brown & Associates, Inc. provides comprehensive financial planning services to the extent mutually agreed with the client. The firm evaluates nine primary areas to develop a financial plan tailored to fit the needs of the individual client. These areas include the following: 1) assets and liabilities; 2) current income; 3) current income taxes; 4) insurance coverage; 5) retirement planning; 6) estate planning; 7) business holdings; 8) committed and discretionary expenses; 9) and the client's investment objectives, attitudes and philosophy.

The above and other relevant individual factors are discussed with the client to develop an assessment of the client's current and long-term financial needs. Next, J M Brown & Associates, Inc. may provide a written document of Preliminary Recommendations that encompass the client's financial situation consistent with the client's financial goals and objectives. Said document may consider issues such as the effects of inflation on savings, tax effects on income and investments, tax-sheltered investments, appropriate levels of cash reserve for contingencies, and other relevant issues. The financial plan may include asset and cash flow statements, comprehensive estate planning issues, retirement planning, and provision for education of dependents, or other special circumstances. Recommendation may also be delivered in electronic format or in the form of verbal (in-person or phone) discussion or both.

The services a client receives are dependent upon the individual needs and requested by the client, but often times the services rendered are continuous and on going. The investment management services provided by J M Brown & Associates, Inc. often involve investment modeling where trades are conducted with the use of Advisor discretion. The Advisor will perform "active" management to a client's account in accord with pre-described/defined goals and risk tolerances provided by the client. When discretionary authority has been given to J M Brown & Associates, Inc. or to one of the Investment Advisor Representatives ("IARs") of JMB, this allows JMB to "take action" without first receiving approval from the client. The "action" is limited to purchases and/or sales of securities (Stocks/Bonds/Mutual Funds/Variable Annuity subaccounts and/or Variable Universal Life subaccounts/ETFs...), but does not allow the Advisor to move funds between accounts or transfer assets from the account. All transactions occur at a qualified custodian that produces statements. These statements may be produced monthly, but must be produced at least quarterly and contain the basic account value and holdings of the managed accounts along with listing the activity that occurs within the account(s) being managed by JMB. The statement provided by the custodian will also contain the advisory fee charged by JMB. Fees charged by JMB are separate from the fees charged by Mutual Funds and other investment companies. Therefore, JMB recommends consulting the Mutual Fund and/or other investment company prospectus for more information about their fees.

JMB also provides long term buy and hold services that do not involve active management of client accounts. Clients may choose a service that offers asset allocation services managed by JMB that makes less active transactions and is designed to keep expenses low, while offering market related rates of return. If services are selected that do not entail discretionary authority, then clients are free to implement all, some, or none of the Advisor's recommendations and the full responsibility of implementation rests with the client.

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

Compensation is based on one of the following formats or combinations thereof:

- Commissions
- A percentage of assets under management
- Hourly Charges
- Fixed Fees
- A combination of any of the above

The firm would normally provide the initial consulting work to prospective clients at no cost to enable the client to better understand the manner utilized by the firm in dealing with strategies, tools and techniques to help clients obtain their goals and objectives. After this initial phase is completed, the client being fully informed can then elect whether or not to hire the Advisor and choose the form of compensation. Logically, the firm would then be in a position to advise the client as to the most effective form of compensation, but the client will make the final decision.

Compensation would be determined by the complexity of the circumstances and must be mutually agreeable to both parties after completion of the initial consulting work indicated in the prior paragraph.

Fees are charged in arrears on a "pay as you go" basis. While fees are negotiable and may vary from client to client, JMB has developed a range of fees a client could expect to be charged when using the Advisor's services. The annual fee shall vary (between 0.25% and 2.75%) depending on the market value of assets under management and the type of investment management services begin provided. Fees are quoted in advance and must be accepted by client prior to project commencement or investment management. Executing a signature on the client agreement acknowledges acceptance by client.

J M Brown & Associates, Inc.'s determination of investment management fees are based on one or more of the following factors:

- The number of accounts, positions, account objectives, risk tolerances and restrictions requested by the client
- The estimated amount of time expended in researching, analyzing and documenting the specific recommendation(s) and course(s) of action.
- The requests of each client regarding follow up and forms of communication requested

- The familiarity (or lack thereof) between JMB and the client based on experience and client interaction
- A competitive analysis of other advisory firm's fees
- The total amount of assets requested to be managed

In rendering services described above, JMB makes recommendations only, these recommendations can be implemented through JMB in the following methods: Non-discretionary or Discretionary.

Discretionary Transactions are directed by JMB for accounts that have a limited discretionary authority agreement. Clients who choose to provide JMB with discretion have empowered JMB to buy and sell securities without the client's prior knowledge or consent. Clients may, by contract, place restrictions on JMB's discretionary authority. Trail fees or 12b-1 fees on these discretionary accounts may be paid to JMB. JMB may act as the investment advisory client's representative in the execution of securities transactions on a normal and customary basis. The use of a registered broker/dealer for such transactions is at the client's complete discretion. The receipt of commissions creates the possibility of a conflict of interest. Advisors that can make both fee and commission must put the client's interest ahead of any personal financial gain; this disclosure is to serve notice to clients of the inherent conflict of charging fees and having the ability also to make commissions. Clients have the right to ask if commissions are also being made by the Advisor on accounts where they are charging fees. Clients may pay higher commission rates than otherwise available. JMB and its investment advisor representatives, and not the broker/dealer are solely responsible for the quality of investment advice provided to clients.

For the purpose of implementing recommendations and effecting transactions in the course of construction of a client portfolio and ongoing monitoring or management, IARs of JMB may direct advisory clients to a licensed securities broker/dealer with which he is affiliated as an independent registered representative. Advisory clients are under no obligation to effect any portfolio transaction with or through JMB or any broker/dealer with whom IARs of JMB may be affiliated as independent registered representatives. Advisory clients may direct at any time that portfolio transactions be effected with or through any other appropriately licensed securities broker/dealer or registered representative. IARs of JMB who choose to effect transactions for advisory clients through a securities broker/dealer with which they are affiliated, may receive certain types of transaction-based compensation, which is in addition to the advisory fees paid to JMB by clients.

J M Brown & Associates, Inc. has no direct relationship with any specific custodian or brokerage firm and receives no commission compensation from TD Ameritrade Institutional with regard to client transactions. The platform at TD Ameritrade Institutional is a quality, low fee, low-ticket charge, brokerage option that has been a good fit for investment management services.

J M Brown & Associates, Inc. management programs are not considered "wrap fee program" in that clients are responsible for paying any and all transaction costs, including, but not limited to customary ticket charges, postage and service fees and annual maintenance fees that may be issued by the custodians.

In certain instances, depending upon the client's needs and the services to be performed by the Advisor, the advisory fee may be based upon individual negotiations with the client. In such instances, the fee is stipulated and agreed upon in the advisory contract.

The Client may terminate investment advisory services, without penalty, upon written notice to Advisor within five (5) business days after entering into the advisory agreement. Client will be responsible for any fees and charges incurred by client from third parties as a result of maintaining the investment account such as transaction fees for any securities transactions executed and account maintenance or custodial fees. Thereafter, client may terminate investment Advisory services upon receipt by J M Brown & Associates, Inc. of client's written notice to terminate. Should client terminate prior to completion of the services or during a quarter, client will be charged for time spent by Advisor on a pro-rated basis of the Advisory fee for the quarter up to the date of termination.

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

J M Brown & Associates, Inc. does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

### ***Item 7 – Types of Client***

J M Brown & Associates, Inc. takes an active approach to managing the types of clients that are accepted by the firm. The clients that J M Brown & Associates, Inc. currently choose to work with are often “main street” every day people. There are some clients who have high net worth and would be considered “accredited” investors (individual net worth of any natural person, or joint net worth with the spouse of that person, at the time of purchase, is more than \$1,000,000 [as such amount is adjusted periodically by rule of the Commission], excluding the value of the primary residence of such natural person).

J M Brown & Associates, Inc. requires a minimum investment amount of \$50,000 to establish and maintain an asset management account. Exceptions to the minimum investment amount may be granted at Advisor's discretion. The firm requires clients to disclose current financial status and investment objectives to the Advisor at the time of opening an investment account. These documents are updated as needed. Clients are requested to inform the Advisor whenever the client has experienced a significant change in financial status or condition or wish to change the investment objectives on the account. (Example: Client wishes to change investment objective from Aggressive Growth to Moderate. The client would need to complete a new account form that evidences this request).

JMB's clientele could be categorized as individuals, businesses and trusts. The services offered to each may vary and is largely dependent upon the client's unique circumstances. J M Brown & Associates, Inc. has each client execute an independent agreement and each agreement offers services separately to each individual client.

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

**Analysis:** J M Brown & Associates, Inc. is primarily fundamental in its approach to the economy, stock market, and individual securities. The firm believes that analysis of the client's balance sheet, income statement, and sources and uses of funds provide significant indications of the attractiveness of a particular investment, but does, however, use other methods of analysis to complement the fundamental approach. Fundamental analysis provides the basis upon which recommendations are made to buy, hold, and sell specific securities. Technical, cyclical, and charting methods are utilized primarily for the purpose of making the buy or sell decision.

**Sources of Information:** The principal financial information sources used are the internet, Financial Times, Standard and Poor's, RIA Federal Tax Handbook, National Underwriting Tax Facts 1 and 2, A.M. Best, Morningstar, Ibbotson, The Journal of Financial Planning, government and general financial planning publications, prospectuses and annual reports. These sources are all used to support the Firm's analysis and activities.

**Strategies:** J M Brown & Associates, Inc. believes that its fiduciary responsibilities require the firm to elect tools and techniques and to tailor portfolio/investment strategies to the needs of the individual client. In general, the firm's investment philosophy is appreciation of principal and/or to maximize current income within the constraints of prudent risk-taking and according to the client's stated objectives. Portfolios are structured to meet current objectives and to anticipate future needs and changes in long-term goals, as well as to minimize taxes.

In addition, the Advisor has entered into an agreement with another research firm, EdgeTech Analytics, LLC that will provide modeling software that produces trading signals for the purpose of determining portfolio reallocations. This software serves to aid in the daily evaluation of general portfolio holdings. As per the agreement, a portion of the advisory fee is paid to EdgeTech Analytics, LLC as compensation for services rendered.

J M Brown & Associates, Inc. offers investment management services to clients pursuant to an agreement between the Advisor and the client. This service is designed to reposition or reallocate the client's assets based on an asset allocation model developed by the Advisor or by a third party investment advisor that has contracted with the Advisor to provide such services. The Advisor through a client interview including a discussion of the client's financial status, investment objectives, trading history, size of portfolio, nature of securities held, and account diversification will provide investment recommendations.

Once an asset allocation model is determined, assets may be reallocated at any point in time as appropriate. Reallocation of assets will trigger taxable events except where IRA accounts, 401(k), 403(b) accounts, tax-deferred annuities or other qualified retirement plans or accounts are involved. Additionally, depending on the trading platform, frequent trading may cause higher expenses to the client as compared to traditional buy and hold methods.



Advisor refers clients to third party investment advisor firms registered with the SEC and various states. Advisor receives a fully disclosed solicitation fee as compensation for introducing accounts to the approved third party investment advisors. Such arrangements are described in the applicable third party investment advisor's Disclosure Brochure and client agreement. These materials are provided to the client prior to engaging the services of the approved third party described.

Clients are expected to provide financial and other pertinent data to the Advisor. The Advisor, in reliance upon the accuracy and completeness of the information provided by the Client, helps the client determine his/her risk tolerance, investment goals, tax situation, financial status and other relevant investment guidelines. In consultation with the Advisor, the client will choose the third party advisor based on these guidelines. The Advisor will provide the client with both this Disclosure Brochure and the chosen third party investment advisor's Disclosure Brochure.

Upon selection of a third party investment advisor, the client will sign the applicable advisor's Advisory Contract and deposit funds in an appropriate account. Thereafter, the client's funds will be invested as recommended by the third party investment advisor. PKS and the Advisor will not actively participate in this process, except for administrative purposes.

Fees and their method of calculation, for each third party investment advisor's services are carefully described in their Disclosure Brochure. Such fees may be negotiable. Third party investment advisors generally charge fees that are debited on a periodic basis from the client accounts on a schedule pre-approved by the client. The client should consult the third party advisor's Disclosure Brochure to determine: (a) if compensation is payable before the service is provided; (b) when compensation is payable; (c) how a client may get a refund; and (d) how a client may terminate an advisory contract before its expiration date.

A portion of the fees charged to the client by the third party investment advisor is allocated to the Advisor as a solicitor fee for introducing accounts to the third party advisor. This portion of the investment advisory fees paid by clients may be made payable to the Advisor.

If an Advisor is engaged to provide Investment advice, the client's current financial situation, needs, goals, objectives and risk tolerance are evaluated. If the client selects an "active" management strategy, asset allocation and security selection decisions are then made with the aid of computer models that are labeled with investment objectives: Growth, Moderate, Conservative or Bond focused. The portfolio of models may already exist or if the Advisor deems necessary, a new model portfolio may be constructed for the client individually. The model portfolios are often comprised of multiple asset categories and sectors and have the ability to perform multiple styles of asset allocation including ranges from 100% equity exposure to 100% cash exposure. Investment overlap and diversification are key components to the investment portfolio design.

While the typical asset allocation elected by a large majority of the investment advisory community would include Large Cap, Mid Cap, Small Cap, Bonds and International segments. Our growth model processes often evaluate all of those, but also may include special sectors like: financials, global/foreign, gold, commodities, natural resources, technology, health care, real estate, region specific/country

specific, utilities, world bonds and more... thus allowing the models to select risk appropriate positions from a large population of investment opportunities.

There are substantial risks involved by investing in securities. It is the client's responsibility to read and review the monthly/quarterly statements and provide feedback as to their comfort or lack thereof with the then current asset allocation of their individual portfolio(s). The asset allocation in portfolios that are managed utilizing our "active" investment strategies will change more frequently. In other words, the allocation that exists one day or one week may not be representative of the allocation the following day, week, month or quarter. Therefore, we recommend establishing an electronic access to the custodian who holds or custodies your securities and provides monthly or quarterly statements. The electronic access will allow clients to view the account as frequently as they like and will offer a more recurrent analysis of the portfolio's progress.

Additionally, there are complexities and risks associated with trading securities including, but not limited to: execution or trading errors, price volatility, bid/ask spreads, order types (such as "market" and "limit" orders), deviation from net asset value and "execution price slippage" caused by lack of order or book depth. This is commonly seen in some of the more thinly traded stocks or ETFs that do not usually experience a lot of daily trading volume. An example of such a dilemma was the "flash crash" that the market experienced on May 6, 2010. On that day, the Dow Jones Industrial Average plunged approximately 900 points only to recover those losses later in the trade day. It was the second largest point swing, 1010.14 points, and the biggest one-day decline, 998.50 points, on an intraday basis in Dow Jones Industrial Average History.<sup>1</sup> At present, J M Brown & Associates, Inc. heavily focuses on mutual funds that trade once per day, this helps minimize problems associated with industry intra-day price deficiencies. Exchange-traded funds (ETFs) are another tool that can be used by JMB to "actively" manage client accounts, but the price execution risk is much higher with ETFs than mutual funds, because their price fluctuates like a stock, and can be traded multiple times per day.

Use of leveraged funds in a client's portfolio often adds risk to the portfolio. Leveraged funds, which use futures and options to amplify returns, try to return two to three times the daily returns of a particular index. J M Brown & Associates, Inc. does not usually recommend leveraged funds to the general public, as they are volatile positions that can move quickly and materially affect a client's account value causing extensive damage to a portfolio. However, due to the liquidity that is often found as a characteristic of leveraged funds, JMB may from time to time purchase leveraged bond funds that contain 1.2 times or more the movement of the respective bond index. The use of such leverage is often conducted to accommodate specific liquidity needs of the client or to activate new investment assets that have been transferred into the client's portfolio. Other leveraged sector funds could be used to accommodate liquidity issues as well, but the timeframe for holding those volatile positions would likely be short, usually less than 30 days.

Clients have the right to place a restriction on their account that would not allow the use of leveraged investments in their portfolio. That restriction request must be performed in writing. However, this

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<sup>1</sup> [http://en.wikipedia.org/wiki/2010\\_Flash\\_Crash](http://en.wikipedia.org/wiki/2010_Flash_Crash)

restriction would not require the Advisor to know how the individual fund invests internally. Many mutual funds use options, futures and derivative instruments to invest public clients' assets. This restriction would merely cause the Advisor to stay away from funds that market an investment strategy that is designed to amplify the returns of an index in a leveraged fashion.

### ***Item 9 – Disciplinary Information***

Registered Investment Advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to one's evaluation of J M Brown & Associates, Inc. or the integrity of JMB's management (and each supervised person providing investment advice). J M Brown & Associates, Inc. has no information applicable to this item regarding the firm or its principal owner and advisor, Ronald Brown or any other Investment Advisor Representative of the firm.

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

J M Brown & Associates, Inc. does not have other industry activities or affiliations, but some of the Investment Advisor Representatives who are registered with J M Brown & Associates, Inc. are also registered representatives of PKS, a registered broker/dealer, member FINRA/SIPC. As such, members who are dually registered must adhere to both the FINRA rules and guidelines as implemented and enforced by the broker/dealer in addition to the State or Federal investment advisory rules and guidelines. The economic benefit that these dually licensed representatives can achieve is the ability to gain a commission in addition to or in lieu of the potential investment advisory fees. This can create a conflict of interest that should be disclosed to the client prior to the sale of any security.

As such, J M Brown & Associates, Inc. tries to segregate its investment advisory business from its commission business. This is often achieved by utilizing custodial platforms such as TD Ameritrade Institutional. When accounts are opened at TD Ameritrade, they are handled strictly on a fee basis. All mutual fund securities trades at TD Ameritrade are conducted at net-asset-value (NAV), which means no commissions can be generated or received by the Advisor. Additionally, commissions called trail commissions or 12b-1 fees are not paid to the Advisor under the TD Ameritrade custodial platform. Therefore, the TD Ameritrade platform can be truly considered a fee only program by JMB. However, if ETFs or other securities transactions are placed at TD Ameritrade ticket charges or transaction costs are issued. Those charges are levied by TD Ameritrade and IARs do not share in any portion of the ticket charges to execute transactions through TD Ameritrade.

Depending of the client's needs, annuities might be appropriate for the living benefit riders or the tax-deferred nature of the investment vehicle. The companies that offer annuity products are numerous and the features of each product are often complex. Additionally, the methods of compensation vary per annuity company, but they often involve a commission payment to compensate the registered representative for learning and marketing the product. These commissions can be sizable and may induce a conflict of interest. When clients are found to have a need that may be best served with an

annuity, the compensation of any such commission is evaluated and is considered when charging investment advisory fees.

### ***Item 11 – Code of Ethics***

J M Brown & Associates, Inc. has created a code of ethics that is designed to help educate and monitor the business conduct of our office staff. The code emphasizes the firm's fiduciary duty to clients and produces a heavy burden on the staff to maintain client confidentiality. A copy of the code of ethics is available to clients or prospective clients upon request.

Ronald Brown or other employees of J M Brown & Associates, Inc. may occasionally buy or sell securities for their own accounts. The firm may or may not recommend these securities to clients since recommendations vary according to an individual client's specific needs and circumstances. Additionally, staff members may use computer models that will actively allocate and may buy or sell securities without consideration of client holdings. These securities are publicly traded and it is highly unlikely that transactions in the personal accounts of the firm's employees could adversely affect the price or performance of the securities.

Should an employee become aware of any non-public information regarding a security, it is the firm's policy that the employee not act on such information for his/her own benefit or for the benefit of clients and report the information to J M Brown & Associates, Inc. management (and the proper regulatory authorities, if warranted).

### ***Item 12 – Brokerage Practices***

J M Brown & Associates, Inc. may recommend brokerage platforms based on trading and technology, the depth and breadth of services, the customer service responsiveness and brokerage transaction costs and best execution records. Currently, J M Brown & Associates, Inc. often recommends the TD Ameritrade Institutional platform as its main brokerage/custodian. Such recommendation is based on the history and experience that J M Brown & Associates, Inc. has established with TD Ameritrade, but also due to the continued industry leadership and best execution practices TD Ameritrade displays in ongoing performance.

J M Brown & Associates, Inc. has an investment advisor representative who is also an independent registered representative with PKS, a registered broker/dealer, member FINRA/SIPC. While this company offers brokerage services, we do not currently utilize any "managed" brokerage accounts with PKS. These accounts often hold longer-term buy and hold stock or individual bond positions. This relationship is helpful on multiple levels including compliance and processing direct mutual fund or variable annuity and variable life insurance business.

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

The reviews of client accounts in the J M Brown & Associates, Inc. program are performed periodically. These reviews will encompass performance evaluation, asset allocation analysis and customer suitability review. The triggering factors for evaluation may include, but are not limited to: change in product composition, change in market condition, change in management philosophy, change in client's financial condition, and any other change of which client apprises the Advisor. Levels of review include: summary review of account statements, in-depth review of statements, objectives and current performance. The client may be invited to attend a detailed review involving a meeting to discuss any related investment strategy and/or future planning. Ronald Brown conducts the review process, with occasional assistance from other office staff. The role of the office staff is largely administrative in gathering the material for review.

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

J M Brown & Associates, Inc. entered into referral/solicitor agreements with other professionals. This arrangement is disclosed and allows JMB to compensate qualified individuals, who meet the standards of acting as a solicitor. When the solicitor refers clients to JMB, a solicitor disclosure document is provided to the potential client that outlines the fee sharing arrangement. As such, the solicitor is paid on a quarterly basis a portion of the investment advisory fee. This fee is paid in accordance with various regulatory guidelines. This solicitor fee is not an additional expense to a client's fee, but rather the fee is paid to the solicitor by JMB from the quarterly advisory management fee. Therefore, the client is not penalized for becoming a client through the solicitor. The client will receive normal and customary fee levels in accord with clients who are not referred to JMB through a solicitor relationship. JMB has a fiduciary responsibility to all clients regardless of what marketing programs lead them to become a client.

### ***Item 15 – Custody***

In 2010, the Securities Exchange Commission (SEC) adopted amendments to Rule 206(4)-2 (the "Custody Rule") under the Investment Advisers Act of 1940 (the "Advisers Act") which governs custody arrangements for registered investment advisers. Prior to that amendment JMB, due to various "No Action" letters and safe harbor provisions issued by the SEC, was deemed not to have custody of client funds. However, after the amendment in 2010, the billing practices of J M Brown & Associates, Inc. are now considered to create a form of custody since advisory fees can be deducted directly from client accounts. This form of custody is very limited. J M Brown & Associates, Inc. is not permitted to take control of any client assets or transfer client assets to or from a client's account unless directed or authorized by the client to do so. JMB does not take possession of client securities or assets. Assets are held at places like TD Ameritrade Institutional that meet the standards and requirements that include providing statements to all clients that reflect their securities activity during a given quarter.

J M Brown & Associates, Inc. is not affiliated with any custodial services and is “operationally independent” from any custodian that generates statements for clients. As such, J M Brown & Associates, Inc. merely performs the calculation of the fees and supplies that information to the custodian, who in-turn debits the fee and reports the activity on the statement. While the act of debiting the fee directly from the client account meets the new definition of custody as amended by the SEC in their 2010 amendment notice for rule 206(4)-2 under the Investment Advisers Act of 1940; the SEC carved out a provision in the rule change that exempted firms from an annual surprise audit on its books and records, if they merely met the definition of having custody due to the ability to deduct the fee from the client(s) account. The basic provisions for the exemption that J M Brown & Associates, Inc. and its members adhere to are:

- Maintain accounts at a “qualified custodian”, institutions to which clients and advisers customarily turn for custodial services.
- Those custodians are subject to regulations and oversight.
- J M Brown & Associates, Inc. maintains a reasonable belief that the qualified custodians send statements directly to advisory clients.

These requirements are designed so that advisory clients will receive a statement from the qualified custodian and have the opportunity to compare and contrast with any statements or other information they receive from their advisor to determine whether account transactions, including deductions to pay advisory fees, are proper. While J M Brown & Associates, Inc. often provides individual account assessments for clients, JMB is operationally independent from TD Ameritrade Institutional and other custodians. As such, we urge clients to compare the documentation provided directly from J M Brown & Associates, Inc. to the statements provided from the independent custodians.

### ***Item 16 – Investment Discretion***

J M Brown & Associates, Inc. develops active investment management portfolios. The most efficient way to execute this kind of modeling technology is with discretionary authority to place trades prior to receiving instruction or confirmation from each client. The discretionary authority granted to J M Brown & Associates, Inc. when a client enters the client agreement is limited. The authority limits the discretion to purchases and sales within the account. J M Brown & Associates, Inc. has no authority to transfer assets to or from accounts, other than when deducting fees on a quarterly basis. Therefore, the discretion is limited and may be canceled by the client at any time. However, the cancelation of the discretionary authority would likely necessitate the client being removed from the active management program.

### ***Item 17 – Voting Client Securities***

J M Brown & Associates, Inc. does not vote proxies on behalf of clients. The proxies are sent from the custodian or Investment Company directly to the client's address of record. The client is welcome to vote proxies as they see fit. J M Brown & Associates, Inc. does not make recommendations as to how or for whom to vote.

### ***Item 18 – Financial Information***

Registered Investment Advisors are required in this item to provide you with certain financial information or disclosures about JMB's financial condition. J M Brown & Associates, Inc. has no financial commitment that impairs its ability to meet its financial obligations and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

### ***Item 19 – Requirements for State-Registered Advisers***

If this disclosure brochure was not delivered to the client at least 48 hours prior to the client entering into any written or oral advisory agreement with this investment advisor, then the client has the right to terminate the agreement without penalty within five business days after entering into the agreement. For the purposes of this provision, an agreement is considered entered into when all parties to the agreement have signed the agreement, or in the case of an oral agreement otherwise signified their acceptance.

### ***Item 20 – Educational Background and Business Experience***

Ronald A Brown joined J M Brown & Associates, Inc. in June 2002. He has over 23 years of experience in the financial services industry. Mr. Brown became President of J M Brown & Associates, Inc. in November 2011. Prior to joining J M Brown & Associates, Inc., he was a Director in the Latin America Capital Markets Desk in New York for ABN AMRO Incorporated. He was responsible for originating and structuring new issues for both corporate and sovereign entities in Latin America. Ron has 14 years of corporate finance and capital markets experience and has originated over US \$10 billion public and private debt financings in Latin America, including the first Mexican global bond offering. Prior to joining ABN AMRO, he was a consultant at Columbus Advisors; an emerging markets fixed income hedge fund in New York. Before joining Columbus Advisors, Ron spent four years at Merrill Lynch responsible for the firm's fixed income business in Mexico and Peru. His experience also includes four years at Bankers Trust in the Latin America Merchant Banking department. Ron holds a Bachelor of Arts degree in Economics and Psychology from Duke University. In addition to being a Registered Representative, Ron is a Licensed Insurance Agent in the State of Oklahoma.

James M Brown CFP® (born in 1941), was founder and President of J M Brown & Associates, Inc. through November 2011. He is a Certified Financial Planner and has practiced Management Consulting and/or Financial planning since 1964. Mr. Brown has a BBA from the University of Oklahoma in management/Economics and he worked fifteen years abroad in different countries for Price Waterhouse & Co. as a Generalist in Management Advisory Services. The last three years he worked in the Executive Office for South America, which handled the finance and accounting operations for nine countries. In 1979, Mr. Brown returned to the United States and worked in Sales Management in the Paul Revere Insurance Group specializing in Disability Income Protection that included doing referral work for CPAs and Tax Attorneys in Qualified Sick Pay Plans. Mr. Brown has been active in the Financial Planning arena since 1986. He was a Board Member of the Tulsa Chapter of the Institute of Certified Financial Planners and the Financial Planning Association of Tulsa (FPA Tulsa). He previously served as Board Member of the Americas Sub-Committee of the International Advisory Council of the National FPA.

### ***Item 21 – Other Business Activities***

J M Brown & Associates, Inc. is a registered investment advisor and its sole responsibility is offering fee based investment advice. However, Investment Advisor Representatives who are individuals registered with J M Brown & Associates, Inc. have multiple business activities that are material to the securities industry. Ronald Brown who is an IAR registered with J M Brown & Associates, Inc. is also an independent registered representative with a broker/dealer named PKS. member FINRA/SIPC.

This outside business affiliation allows those registered representatives to make commissions on various securities trades. As such, an inherent conflict of interest may exist. When working with an IAR member of J M Brown & Associates, Inc. we encourage our clients to ask about the different kinds of compensation that might be made with regard to offering investment advice or brokering a product. While the vast majority of business conducted from this office is performed as fee-based advice under JMB, there are times where a commission-based product may be suitable and warranted.

### ***Item 22 – Additional Compensation***

As disclosed in previous sections, additional compensation can be earned by IARs of JMB. Such compensation could include commissions from the purchase or sale of securities or insurance products, and income from outside business activities. Additionally, members of J M Brown & Associates, Inc. could be invited to due diligence meetings at the request of investment companies or other industry organizations. On occasion, travel reimbursements are made by those companies that extended the invitation. While these payments would only reimburse travel expenses, the appearance of “pay for production” may exist and as such, the potential conflict of interest has been disclosed.



In order to be clear, accounts that are held at TD Ameritrade Institutional do not allow for any commission payments of any kind to be paid to J M Brown & Associates, Inc. or any of its direct members. These accounts are fee based advisory accounts. The only compensation derived from TD Ameritrade accounts are the quarterly fees that are evidenced on each quarterly statement provided to the client directly from TD Ameritrade.

### ***Item 23 – Privacy Policy***

In order to facilitate the servicing of your account, the Advisor may receive nonpublic personal information about you from the following sources:

- Information we receive from you on questionnaires, applications, account opening documents or other forms;
- Information about your transactions with us or others;
- Information we receive from a consumer reporting agency; and
- Information we received from other sources with your consent.

We do not disclose any nonpublic personal information about you to anyone, except as permitted by law. Such disclosure may include the following:

- Disclosures to affiliates, including affiliated service providers (for example, insurance agencies for processing of variable insurance applications on your behalf);
- Disclosures to your chosen broker/dealer firm (for example, to establish a brokerage account on your behalf);
- Disclosures to government agencies, securities regulators and law enforcement officials (for example, for tax reporting, under a court order or to protect our legal rights);
- Disclosures to other organizations, with your consent (for example, other investment advisor firms in order to open a managed account with their firm or the brokerage firm they utilize); and
- Disclosures to other persons you authorize to obtain such information (for example, a CPA who will be preparing your tax return).

The Advisor restricts access to your personal and account information to those of its employees who need to know that information to provide products or services to you. The Advisor maintains physical, electronic, and procedural safeguards to guard your nonpublic personal information.

We will continue to adhere to the privacy policies and practices as described in this notice if you decide to close your account(s) or become an inactive customer.

If you have any questions concerning the Advisor's privacy policies and procedures, please feel free to contact us. Thank you.

**Ronald Brown**  
President