

## **Part 2A of Form ADV: *Firm Brochure***

### **Income & Asset Advisory, Inc.**

80 Business Park Drive  
Suite 304  
Armonk, NY 10504

Telephone: 914.273.6800  
Facsimile: 914.273.6806  
Email: [Jim@TheAdvisory.com](mailto:Jim@TheAdvisory.com)  
Web Address: [www.TheAdvisory.com](http://www.TheAdvisory.com)

03/27/2017

This brochure provides information about the qualifications and business practices of Income & Asset Advisory, Inc. If you have any questions about the contents of this brochure, please contact us at 914.273.6800 or [Jim@TheAdvisory.com](mailto:Jim@TheAdvisory.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Income & Asset Advisory, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 124955.

## **Item 2    Material Changes**

This Firm Brochure, dated 03/27/2017, provides you with a summary of Income & Asset Advisory, Inc.'s advisory services and fees, professionals, certain business practices and policies, as well as actual or potential conflicts of interest, among other things. This Item of the brochure is updated if material changes have occurred during the course of Income & Asset Advisory Inc.'s fiscal year; or with the Annual Updating Amendment (ADV).

Since the last ADV Annual Amendment filing, there have been no material changes at our firm.

In the future, we will ensure that you receive a summary of any material changes to our brochure within 120 days of our fiscal year end. We may also provide updated disclosure information on a more frequent basis. Any summaries of changes will include the date of our last annual update of our brochure. We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Because of the broad scope of these disclosures throughout this document, we urge clients to review this information and we welcome the opportunity to answer any questions you may have.

<b>Item 3</b>	<b>Table of Contents</b>	<b>Page</b>
Item 1	Cover Page	1
Item 2	Material Changes	2
Item 3	Table of Contents	3
Item 4	Advisory Business	4
Item 5	Fees and Compensation	6
Item 6	Performance-Based Fees and Side-By-Side Management	9
Item 7	Types of Clients	9
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss	9
Item 9	Disciplinary Information	12
Item 10	Other Financial Industry Activities and Affiliations	12
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	13
Item 12	Brokerage Practices	15
Item 13	Review of Accounts	17
Item 14	Client Referrals and Other Compensation	18
Item 15	Custody	19
Item 16	Investment Discretion	19
Item 17	Voting Client Securities	19
Item 18	Financial Information	20

## Item 4 Advisory Business

Income & Asset Advisory, Inc. (hereinafter referred to as "IAA", the "firm" or "we") is a SEC-registered investment adviser with its principal place of business located in Armonk, New York. IAA was organized as a New York corporation in 1986, began providing investment advisory services in 2006 and has been registered with the SEC since 2009. It should be noted that registration as an investment adviser does not require nor does it imply any level of skill or training.

James P. McCauley is the CEO, President, Chief Compliance Officer ("CCO"), and the firm's sole shareholder.

Our firm offers the following advisory services to our clients:

### INDIVIDUALIZED PORTFOLIO MANAGEMENT

Our firm provides continuous advice to a client regarding the investment of client funds. We tailor our advisory services to the individual needs of clients. In designing a customized portfolio for each client, we take into consideration risk tolerance, liquidity needs, income tax consequences, and investment time horizons. Expected cash flows into and out of the account are also major considerations. We ask our clients to promptly notify us when their financial situation, goals, or objectives have changed so we may make appropriate investment decisions.

IAA manages these advisory accounts on a discretionary basis. Account supervision is guided by the client's stated objectives (i.e., maximum capital appreciation, growth, income, or growth and income), as well as tax considerations.

Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

Our investment recommendations will generally include advice regarding the following securities:

- Mutual fund shares
- Exchange-listed securities
- Certificates of deposit
- United States governmental securities
- Variable life insurance
- Real Estate investment trusts (REITs)
- Exchange-traded funds (ETFs)
- Securities traded over-the-counter
- Municipal securities
- Closed-end funds
- Fixed or Variable annuities
- Interests in limited partnerships

Because some types of investments involve certain additional degrees of risk, they will only be implemented when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

### PENSION CONSULTING SERVICES

We also provide several advisory services separately or in combination. While the primary clients for these services will be pension, profit sharing and 401(k) plans, we offer these services, where appropriate, to individuals and trusts, estates and charitable organizations. Pension Consulting Services are comprised of four distinct services. Clients may choose to use any or all of these services.

*Investment Policy Statement Preparation (hereinafter referred to as "IPS"):*

We will meet with the client (in person or over the telephone) to determine an appropriate investment strategy that reflects the plan sponsor's stated investment objectives for management of the overall plan. Our firm then prepares a written IPS detailing those needs and goals, including an encompassing policy under which these goals are to be achieved. The IPS also lists the criteria for selection of investment vehicles as well as the procedures and timing interval for monitoring of investment performance.

*Selection of Investment Vehicles:*

We assist plan sponsors in constructing appropriate asset allocation models. We will then review various mutual funds (both index and managed) to determine which investments are appropriate to implement the client's IPS. The number of investments to be recommended will be determined by the client, based on the IPS.

*Monitoring of Investment Performance:*

We monitor client investments continually, based on the procedures and timing intervals delineated in the Investment Policy Statement. These pension consulting services do not include the purchase or sale of investments in the plan; we supervise the client's portfolio and will make recommendations to the client as market factors and the client's needs dictate.

*Employee Communications:*

For pension, profit sharing and 401(k) plan clients with individual plan participants exercising control over assets in their own account ("self-directed plans"), we also provide quarterly educational support and investment workshops designed for the plan participants when the plan sponsor engages our firm to provide these services. The nature of the topics to be covered will be determined by us and the client under the guidelines established in Section 404(c) of the Employee Retirement Income Security Act of 1974 ("ERISA"). The educational support and investment workshops will NOT provide plan participants with individualized, tailored investment advice or individualized, tailored asset allocation recommendations.

*Sub-advisers:*

IAA may, from time to time, engage one or more sub-advisers to provide asset allocation and strategic investment recommendations for certain advisory client accounts that may be invested in any or all such securities as previously noted. IAA retains the discretionary authority for the implementation of such recommendations. No additional costs or fees are paid by IAA advisory clients.

## CONSULTING SERVICES

Clients can also receive investment advice on a more focused basis. This may include advice on only an isolated area(s) of concern such as estate planning, retirement planning, or any other specific topic. We also provide specific consultation and administrative services regarding investment and financial concerns of the client.

Because certain associated individuals of IAA are separately registered as representatives of a broker-dealer and/or as insurance agents/brokers of various insurance companies, recommendations

provided as part of IAA's consulting services may be limited to only those products offered through these companies.

Income & Asset Advisory, Inc. does not participate in wrap fee programs.

### **AMOUNT OF MANAGED ASSETS**

As of December 31, 2016, we were actively managing approximately \$95,676,421 of clients' assets on a discretionary basis.

## **Item 5 Fees and Compensation**

### **INDIVIDUALIZED PORTFOLIO MANAGEMENT FEES**

The annualized fee for Investment Supervisory Services, which is payable on a monthly basis in arrears, is calculated based on the fair market value of the managed assets at the close of business on the last day of the preceding month. An advisory fee is charged on cash balances in the account. We do not, however, charge an advisory fee on interests in limited partnerships, or other non-managed assets. IAA's standard portfolio management fee schedule is as follows:

<u><b>Assets under Management</b></u>	<u><b>Annualized Fee</b></u>
Less than \$500,000	1.25%
\$500,001 to \$1,000,000	1.10%
\$1,000,001 to \$2,000,000	1.05%
\$2,000,001 to \$3,000,000	1.00%
\$3,000,001 to \$4,000,000	0.85%
\$4,000,001 to \$5,000,000	0.70%
\$5,000,001 to \$10,000,000	0.60%
More than \$10,000,000	0.45%

### **PENSION CONSULTING FEES**

We charge a fixed fee for Pension Consulting Services which ranges from 0.25% to 1.50% of plan assets depending on the services requested and the size of the plan. Fees are agreed upon at the time of the engagement and are payable in arrears on a monthly basis.

Certain associated persons of IAA can receive commissions for executing securities transactions, or 12b-1 distribution fees from the investment companies chosen by the plan sponsor. In such cases, we provide full disclosure to plan sponsors regarding such commissions and fees. IAA will offset any commissions or fees received by such associated persons from asset-based advisory fees charged by our firm for ongoing pension consulting services. The receipt of such additional fees and their availability from different vendors may create conflicts of interest.

### **CONSULTING SERVICES FEES**

IAA's Consulting Services fee is determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into an advisory contract with any client.

We charge for consulting services on a flat rate or an hourly basis. Our flat and hourly rates are generally not negotiable. For hourly projects, we provide an estimated fee range prior to beginning the engagement, calculated at the rate of \$250 per hour. Fees typically range from \$250 to \$2,000, depending on the complexity of the financial situation, the amount of research that is required, the number of expected meetings, and time expected to complete the engagement.

***Consulting Services Fee Offset:*** We reserve the discretion to reduce or waive the hourly fee and/or the flat fee if a consulting client chooses to engage us for our Portfolio Management Services.

## GENERAL INFORMATION

***Termination of the Advisory Relationship:*** A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days written notice.

***Limited Negotiability of Advisory Fees:*** Although IAA has established the aforementioned fee schedule(s), we retain the discretion to negotiate alternative fees on a client-by-client basis. Client facts, circumstances and needs are considered in determining the fee schedule. These include the complexity of the client, assets to be placed under management, anticipated future additional assets; related accounts; portfolio style, account composition, reports, among other factors. The specific annual fee schedule is identified in the contract between the adviser and each client.

We may group certain related client accounts for the purposes of achieving the minimum account size requirements and determining the annualized fee.

Discounts, not generally available to our advisory clients, may be offered to family members and friends of associated persons of our firm.

***Billing Terms.*** We bill the advisory fee in arrears every month. When authorized by the client, fees are debited from the account in accordance with the terms set forth in the Client Management Agreement. Our clients receive an account statement directly from their custodian reflecting the deduction of the advisory fee.

***Additional Fees or Expenses.*** In addition to our advisory fee, clients are also responsible for the fees and expenses charged by custodians and imposed by broker dealers, including fees for custodial services, account maintenance fees, transaction fees, and other fees associated with maintaining an account.

We may recommend mutual funds that charge sales fees, which are often called “loads” (commissions), and so-called no-load mutual funds that do not charge sales fees. In addition, load and no-load mutual funds may pay annual distribution charges, sometimes referred to as 12b-1 fees. Please refer to the *Additional Compensation* section below for disclosures regarding potential conflicts of interest.

**Mutual Fund Fees.** All fees paid to IAA for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our

firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

***Prepayment of Advisory Fees.*** As previously disclosed, IAA's asset management fees are billed or directly debited from client accounts in arrears on a monthly basis.

***Additional Compensation and Advisory Fees Offset by Commissions.*** Certain management personnel and other related persons of our firm are, in their individual capacity, separately licensed as registered representatives of American Portfolios Financial Services Inc. ("APFS"), a broker-dealer registered with the Securities and Exchange Commission that is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA") and the Securities Investor Protection Corporation ("SIPC"). When these individuals, acting in their separate capacity as registered representatives of APFS, effect securities transactions on behalf of an IAA advisory client, they are required to execute securities transactions through APFS unless they obtain authorization to execute transactions through another broker-dealer. In so doing, these individuals may earn separate compensation in the form of commissions (e.g., upfront fees earned from the sale of mutual funds) and/or 12b-1 fees (e.g., trail service fees earned from the sale of mutual funds). Certain mutual funds and certain unit investment trusts in which a client may invest make payments to broker/dealers. Such payments may be pursuant to a 12b-1 distribution plan or pursuant to another arrangement as compensation for distribution or administrative services and may be paid out of the fund's or the trust's assets. American Portfolios (APFS) may receive such fees or other compensation to the extent permitted by applicable law. Advisors of IAA may or may not receive these 12b-1 fees paid to APFS, but not other compensation.

Prior to purchasing a mutual fund, advisors of IAA will make every effort to invest the client assets in the lowest cost structure mutual fund share classes to which the client investment is eligible. Eligibility requirements vary by fund group, often associated with minimum amounts of investment. IAA will conduct a semi-annual review to ensure that the client is in the most advantageous share class available, with no 12b-1 fees, so long as this can be done at no cost to the client.

In addition, some of our personnel are insurance brokers who may be paid a commission when a client of our firm purchases insurance as part of the implementation of recommendations made pursuant to a consulting services engagement.

While these individuals endeavor at all times to put the interest of the clients first as part of IAA's fiduciary duty, clients should be aware that this practice presents a conflict of interest and gives these individuals an incentive to recommend investment products based on the compensation received, rather than solely on the needs of the client. We address this conflict by not charging an advisory fee on securities which our personnel receive commissions (e.g., upfront fees earned from the sale of mutual funds). We are disclosing this conflict of interest to our clients by means of this brochure.

Finally, clients are not under any obligation to engage these individuals when considering implementation of advisory recommendations. The implementation of any or all recommendations is



solely at the discretion of the client. Clients have the option to purchase investment products that we recommend through other brokers or agents that are not recommended by or associated with IAA.

***Grandfathering of Minimum Account Requirements.*** Pre-existing advisory clients are subject to IAA's minimum account requirements and advisory fees in effect at the time the client entered into the advisory relationship. Therefore, our firm's minimum account requirements will differ among clients.

***ERISA Accounts.*** IAA is deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts (IRAs) pursuant to ERISA, and regulations under the Internal Revenue Code of 1986 (the "Code"), respectively. As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, IAA may only charge fees for investment advice about products for which our firm and/or our related persons do not receive any commissions or 12b-1 fees, or conversely, investment advice about products for which our firm and/or our related persons receive commissions or 12b-1 fees, however, only when such fees are used to offset IAA's advisory fees.

***Advisory Fees in General.*** Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees.

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

We do not charge performance-based fees which are fees based on a share of capital gains or on a capital appreciation of the assets of a client.

## **Item 7 Types of Clients**

We furnish investment management services to individuals, trusts, estates, charitable organizations, tax-exempt funds (such as pension and profit-sharing plans), 401(k) plans corporations, and other business entities. Our minimum account size is generally \$100,000. We aggregate accounts held by members of the same household when determining whether to accept an account. We reserve the right to accept accounts of any size in our sole discretion.

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

We use fundamental and technical analysis to select the securities to be purchased and sold in a client account. Fundamental analysis generally involves assessing the value of a security based on factors such as the revenues, assets, markets, management, products and services, earnings, and financial structure of the issuer of the security. Technical analysis generally involves studying trends and movements in the price and trading volume of the security and other market-related factors in an attempt to discern patterns. While we generally follow a buy-and-hold strategy, we attempt to follow market trends and relative price movements.

Our goal is to improve the risk-return profile of asset classes by identifying periods during which potential returns may not be attractive and risk may be greater than normal. Depending on the

objectives and risk tolerance of the client, a typical growth-oriented program may balance common stock mutual funds with defensive positions in high-yield bond funds, investment-grade bond funds, or money-market instruments. The program seeks to maximize the growth of capital while minimizing portfolio risk by actively moving among asset classes. A typical income-oriented program includes high-yield bond mutual funds and defensive positions in investment-grade bond funds, government securities funds or money-market instruments. If the client desires, tax-free mutual funds may also be used. With these or any other investment management programs, there is no assurance that the investment objectives will be met.

Except with respect to individual retirement accounts (IRAs), 403(b) accounts, and other qualified retirement accounts, purchases, sales and exchanges in the account, including reallocations and rebalancing, are generally taxable events for the client.

### METHODS OF ANALYSIS

We use the following methods of analysis in formulating our investment advice and/or managing client assets:

**Charting.** In this type of technical analysis, we review charts of market and security activity in an attempt to identify when the market is moving up or down and to predict how long the trend may last and when that trend might reverse.

**Fundamental Analysis.** We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

**Technical Analysis.** We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement.

Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement.

**Quantitative Analysis.** We use mathematical models in an attempt to obtain more accurate measurements of a company's quantifiable data, such as the value of a share price or earnings per share, and predict changes to that data.

A risk in using quantitative analysis is that the models used may be based on assumptions that prove to be incorrect.

**Qualitative Analysis.** We subjectively evaluate non-quantifiable factors such as quality of management, labor relations, and strength of research and development factors not readily subject to measurement, and predict changes to share price based on that data.

A risk in using qualitative analysis is that our subjective judgment may prove incorrect.

***Mutual Fund and/or ETF Analysis.*** We look at the experience and track record of the manager of the mutual fund or ETF in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We also look at the underlying assets in a mutual fund or ETF in an attempt to determine if there is significant overlap in the underlying investments held in another fund(s) in the client's portfolio. We also monitor the funds or ETFs in an attempt to determine if they are continuing to follow their stated investment strategy.

A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the holding(s) less suitable for the client's portfolio.

***Risks for all forms of analysis.*** Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

## INVESTMENT STRATEGIES

We use the following strategy(ies) in managing client accounts, provided that such strategy(ies) are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

***Long-term purchases.*** We purchase securities with the idea of holding them in the client's account for a year or longer. Typically we employ this strategy when:

- we believe the securities to be currently undervalued, and/or
- we want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantage of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

***Margin transactions.*** IAA does not utilize margin transactions as an investment strategy in our management of client assets. However, upon client direction we will purchase stocks for the client's portfolio with money borrowed from its brokerage account. This allows the client to purchase more stock than would otherwise be possible based upon the client's available cash, and allows us to purchase stock without selling other holdings.

***Option writing.*** Typically IAA does not utilize option writing as an investment strategy in our management of client assets. On rare occasions, upon client directive and when appropriate to the client's investment objectives and risk threshold, we may use options in the client's account. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is

a security. An option is also a derivative, because it derives its value from an underlying asset.

The two types of options are calls and puts:

- A call gives us the right to buy an asset at a certain price within a specific period of time. We will buy a call if we have determined that the stock will increase substantially before the option expires.
- A put gives us the holder the right to sell an asset at a certain price within a specific period of time. We will buy a put if we have determined that the price of the stock will fall before the option expires.

Options can be used to speculate on the possibility of a sharp price swing or to "hedge" a purchase of the underlying security. In other words, an option purchase is used to limit the potential upside and downside of a security previously purchased for your portfolio.

**Risk of loss.** Clients should understand that investing in any securities, including mutual funds, involves a risk of loss of both income and principal.

## **Item 9     Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. Neither the firm nor any management person has any legal or disciplinary events to report.

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

Neither IAA nor any of our management personnel are registered or has an application pending to register, as a futures commission merchant, a commodity pool operator, a commodity trading advisor, or an associated person of any of these types of entities.

As previously disclosed, certain management personnel and other related persons of our firm, including James P. McCauley Jr., Jason D. Waxler, and Pamela B. Muratore, are separately licensed as registered representatives of American Portfolios Financial Services Inc. ("APFS"), an unaffiliated SEC registered broker-dealer and FINRA member firm. Mr. McCauley, Mr. Waxler and Ms. Hawe are also separately licensed as independent insurance agents.

As such, these individuals are able to receive separate, yet customary commission compensation resulting from implementing product transactions on behalf of advisory clients. Clients, however, are not under any obligation to engage these individuals when considering implementation of advisory recommendations. The implementation of any or all recommendations is solely at the discretion of the client.

Mr. McCauley, the principal of IAA, is also separately licensed in the state of New York as a real estate broker, conducting such business through J.P. McCauley & Co. Ltd. In this individual capacity he can earn separate, yet typical compensation for the sale or rental of real estate properties.

Jason Waxler, acting in his capacity as an independent insurance agent and/or registered representative; and Pamela Muratore acting in her separate capacity as a registered representative, provide such services using the dba of Katonah Capital for tax and business purposes.

Eileen M. Hawe is the sole owner and Managing Member of Money In\$ight, LLC; which provides financial education and guidance to individuals for an hourly fee. Money In\$ight, LLC is not affiliated with Income & Asset Advisory, Inc. The services provided by Money In\$ight are separate and distinct from our advisory services, and are provided for separate and typical compensation. There are no referral fee arrangements between our firms. No IAA client is obligated to use Money In\$ight for any specialized consulting services and conversely, no Money In\$ight client is obligated to use the advisory services provided by us.

Derek Ralston is dually registered with Income & Asset Advisory, Inc. and NCM Capital Management, LLC, a registered investment advisor in New Jersey. This affiliation will not affect, nor will relate, to his financial advisory duties to clients at Income & Asset Advisory, Inc.

Clients should be aware that the receipt of additional compensation by IAA and our management persons or employees creates a conflict of interest that may impair the objectivity of our firm and these individuals when making advisory recommendations. Our firm endeavors at all times to put the interest of its clients first as part of our fiduciary duty as a registered investment adviser; we take the following steps to address this conflict:

- we disclose to clients the existence of all material conflicts of interest, including the potential for our firm and our employees to earn compensation from advisory clients in addition to our firm's advisory fees;
- we disclose to clients that they are not obligated to purchase recommended investment products from our employees or affiliated companies;
- we collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
- our firm's management conducts regular reviews of each client account to verify that all recommendations made to a client are suitable to the client's needs and circumstances;
- we require that our employees seek prior approval of any outside employment activity so that we may ensure that any conflicts of interests in such activities are properly addressed;
- we periodically monitor these outside employment activities to verify that any conflicts of interest continue to be properly addressed by our firm; and
- we educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

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

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct

that we require of our employees, including compliance with applicable federal securities laws.

Our firm and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code also provides for oversight, enforcement and recordkeeping provisions.

IAA's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by email sent Jim@TheAdvisory.com, or by calling us at 914.273.6800.

IAA and individuals associated with our firm are prohibited from engaging in principal transactions or agency cross transactions.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and/or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client.

We may aggregate our employee trades with client transactions where possible and when compliant with our duty to seek best execution for our clients. In these instances, participating clients will receive an average share price and transaction costs will be shared equally and on a pro-rata basis. In the instances where there is a partial fill of a particular batched order, we will allocate all purchases pro-rata, with each account paying the average price. Our employee accounts will be excluded in the pro-rata allocation.

As these situations represent actual or potential conflicts of interest to our clients, we have established the following policies and procedures for implementing our firm's Code of Ethics, to ensure our firm complies with its regulatory obligations and provides our clients and potential clients with full and fair disclosure of such conflicts of interest:

- No principal or employee of our firm may put his or her own interest above the interest of an advisory client.
- No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is a result of information received as a result of his or her employment unless the information is also available to the investing public.

- It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account. This prevents such employees from benefiting from transactions placed on behalf of advisory accounts.
- We maintain a list of all reportable securities holdings for our firm and anyone associated with this advisory practice that has access to advisory recommendations ("access person"). These holdings are reviewed on a regular basis by our firm's Chief Compliance Officer or his designee.
- We have established procedures for the maintenance of all required books and records.
- All clients are fully informed that related persons may receive separate commission compensation when effecting transactions during the implementation process.
- Our firm's principal and all employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
- We require delivery and acknowledgement of the Code of Ethics by each supervised person of our firm.
- Any individual who violates any of the above restrictions may be subject to termination.

As disclosed in the preceding section of this Brochure, related persons of our firm are separately registered as securities representatives of a broker-dealer, and/or licensed as an insurance agent/broker of various insurance companies. Please refer to Item 10 for a detailed explanation of these relationships and important conflict of interest disclosures.

## **Item 12 Brokerage Practices**

IAA does not receive research and other soft dollar benefits from any broker-dealer or other third party.

Brokers that we select to execute transactions may from time to time refer clients to our firm. IAA will not make commitments to any broker or dealer to compensate that broker or dealer through brokerage or dealer transactions for client referrals; however, a potential conflict of interest may arise between the client's interest in obtaining best price and execution and IAA's interest in receiving future referrals.

For clients granting us discretionary brokerage authority, IAA requires these clients to provide us with written authority to determine the broker dealer to use and the commission costs that will be charged to these clients for these transactions.

These clients must include any limitations on this discretionary authority in this written authority statement. Clients may change/amend these limitations as required. Such amendments must be provided to us in writing.

As previously disclosed, some of our personnel are registered representatives of APFS. Our clients are not obligated to use APFS as their broker-dealer and are free to use the broker-dealer of their choice. Not all investment advisors require or permit their clients to direct brokerage to a particular broker-dealer. Nevertheless, if the client wishes to implement financial recommendations provided by IAA

through our personnel, then APFS is required to be used as the broker-dealer pursuant to FINRA Notices to Members 94-44 and 96-33 and FINRA rule 3040. As a result, our personnel may act as the representative of our clients in the execution of securities transactions on a normal and customary commission basis. We comply with the provisions of section 206 of the Investment Advisers Act of 1940 in the execution of each transaction, and we disclose to clients the possibility of conflict of interest as a result the receipt of commissions by our personnel. Our clients may pay higher commission rates than are otherwise available. IAA and not APFS is solely responsible for the investment advice we provide to our clients.

Our general policy is to aggregate the purchase and sale of the same security in client accounts. We believe that aggregation generally results in lower transaction costs for our clients. We will not aggregate orders for clients who direct brokerage to a broker-dealer of their own choosing or if our investment management agreement with a client prohibits order aggregation.

Our block trading policy and procedures are as follows:

- 1) Transactions for any client account may not be aggregated for execution if the practice is prohibited by or inconsistent with the client's advisory agreement with IAA, or our firm's order allocation policy.
- 2) The trading desk in concert with the portfolio manager must determine that the purchase or sale of the particular security involved is appropriate for the client and consistent with the client's investment objectives and with any investment guidelines or restrictions applicable to the client's account.
- 3) The portfolio manager must reasonably believe that the order aggregation will benefit, and will enable IAA to seek best execution for each client participating in the aggregated order. This requires a good faith judgment at the time the order is placed for the execution. It does not mean that the determination made in advance of the transaction must always prove to have been correct in the light of a "20-20 hindsight" perspective. Best execution includes the duty to seek the best quality of execution, as well as the best net price.
- 4) Prior to entry of an aggregated order, a written order ticket must be completed which identifies each client account participating in the order and the proposed allocation of the order, upon completion, to those clients.
- 5) If the order cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day must be allocated pro rata among the participating client accounts in accordance with the initial order ticket or other written statement of allocation. However, adjustments to this pro rata allocation may be made to participating client accounts in accordance with the initial order ticket or other written statement of allocation. Adjustments to this pro rata allocation may be made to avoid having odd amounts of shares held in any client account, or to avoid excessive ticket charges in smaller accounts. As previously disclosed, in the event of a partial fill of a batched order, employee accounts will be excluded from the pro-rata allocation.
- 6) Generally, each client that participates in the aggregated order must do so at the average price for all separate transactions made to fill the order, and must share in the commissions on a pro rata basis in proportion to the client's participation. Under the client's agreement with the custodian/broker, transaction costs may be based on the number of shares traded for each client.
- 7) If the order will be allocated in a manner other than that stated in the initial statement of allocation,



a written explanation of the change must be provided to and approved by the Chief Compliance Officer no later than the morning following the execution of the aggregate trade.

8) IAA's client account records separately reflect, for each account in which the aggregated transaction occurred, the securities which are held by, and bought and sold for, that account.

9) Funds and securities for aggregated orders are clearly identified on our firm's records and to the broker-dealers or other intermediaries handling the transactions, by the appropriate account numbers for each participating client.

10) No client or account will be favored over another.

When a client requires us to direct brokerage to a broker-dealer chosen by the client, it should be understood that IAA will not have authority to negotiate commissions or to necessarily obtain volume discounts, and best execution may not be achieved. In addition, a disparity in commission charges may exist between the commissions charged to the client and those charged to other clients (who may direct the use of another broker). We will not be able to block trade for client accounts who direct the use of broker to a firm other than APFS and therefore a disparity in commission charges may exist between the commissions charged to other clients.

## **Item 13    Review of Accounts**

### **INDIVIDUALIZED PORTFOLIO MANAGEMENT**

**REVIEWS:** While the underlying securities within the Portfolio Management Services accounts are continually monitored, these accounts are reviewed at least quarterly. Accounts are reviewed in the context of each client's stated investment objectives and guidelines. In general, our personnel monitor changes or shifts in the economy, changes in the management of a mutual fund or issuer of securities in which client assets are invested, and market shifts and corrections. Our clients are encouraged to notify their respective account manager promptly of any changes to their financial situation, goals or objectives, as these changes may require us to reallocate or rebalance the account of the client or to modify the client's financial profile.

Our clients may also request more frequent reviews and may set thresholds for triggering events that would cause a review to take place. In addition, changes in our outlook on the capital markets and significant market volatility may trigger additional reviews.

Account reviews are conducted by James McCauley, CEO, President and CCO of IAA; separately and/or in concert with one of the following individuals who is responsible for managing the particular client's account: Jason Waxler, Eileen Hawe, Derek Ralston or Pamela Muratore.

**REPORTS:** Clients receive statements at least quarterly from account custodians and mutual fund distributions. Clients also receive quarterly performance reports from IAA.

### **PENSION CONSULTING SERVICES**

**REVIEWS:** IAA will review the client's Investment Policy Statement (IPS) whenever the client advises us of a change in circumstances regarding the needs of the plan. IAA will also review the investment

options of the plan according to the agreed upon time intervals established in the IPS. Such reviews will generally occur quarterly.

These accounts are reviewed by James McCauley, CEO, President and CCO of IAA; separately and/or in concert with one of the following individuals who is responsible for managing the particular client's account: Jason Waxler, Eileen Hawe, Derek Ralston or Pamela Muratore.

**REPORTS:** IAA will provide reports to Pension Consulting Services clients based on the terms set forth in the client's Investment Policy Statement (IPS).

### **CONSULTING SERVICES**

**REVIEWS:** While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Consulting Services clients unless otherwise contracted for. Such reviews will be conducted by the client's account representative.

**REPORTS:** Consulting Services clients will not typically receive reports due to the nature of the service.

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

### **OTHER COMPENSATION**

Our firm and/or our officers and representatives are eligible to receive incentive awards (including prizes such as trips or bonuses) for recommending certain types of insurance policies or other investment products that we recommend.

While we endeavor at all times to put the interest of our clients first as part of our fiduciary duty, the possibility of receiving incentive awards creates a conflict of interest, and may affect the judgment of these individuals when making recommendations.

### **CLIENT REFERRALS**

Our firm may pay referral fees to independent persons or firms ("Solicitors") for introducing clients to us. Whenever we pay a referral fee, we require the Solicitor to provide the prospective client with a copy of this document (our Firm Brochure) and a separate disclosure statement that includes the following information:

- the Solicitor's name and relationship with our firm;
- the fact that the Solicitor is being paid a referral fee;
- the amount of the fee; and
- whether the fee paid to us by the client will be increased above our normal fees in order to compensate the Solicitor.

As a matter of firm practice, the advisory fees paid to us by clients referred by solicitors are not increased as a result of any referral.

## **Item 15 Custody**

We previously disclosed in the "Fees and Compensation" section (Item 5) of this Brochure that our firm directly debits advisory fees from client accounts.

As part of this billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period.

Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement.

In addition to the periodic statements that clients receive directly from their custodians, we also send account statements directly to our clients on a quarterly basis. We urge our clients to carefully compare the information provided on these statements to ensure that all account transactions, holdings and values are correct and current.

## **Item 16 Investment Discretion**

IAA requires that portfolio management clients provide us with written authority to determine which securities and the amounts of securities that are bought or sold in their account(s).

Clients give us discretionary investment authority when they sign a discretionary agreement with our firm providing IAA with a limited power of attorney to execute securities transactions, and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions. In addition, most broker-dealers and mutual fund distributors require our clients to execute a limited trading authorization to permit our firm to effect securities transactions.

## **Item 17 Voting Client Securities**

As a matter of firm policy, we do not vote proxies on behalf of clients. Therefore, although our firm may provide investment advisory services relative to client investment assets, clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets. Clients are responsible for instructing each custodian of the assets, to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets.

We may provide these clients with consulting assistance regarding proxy issues if they contact us

with questions at our principal place of business.

## **Item 18 Financial Information**

As an advisory firm that maintains discretionary authority for client accounts, we are also required to disclose any financial condition that is reasonably likely to impair our ability to meet our contractual obligations. Our firm has no such financial circumstances to report.

As previously disclosed, IAA's advisory fees are due and payable in arrears. Under no circumstances do we require or solicit payment of fees in excess of \$1200 per client more than six months in advance of services rendered. Accordingly, we are not required to include a financial statement.

IAA has never been the subject of a bankruptcy petition.