

## **Firm Brochure**

(Part 2A of Form ADV)

### **COMPASS EMP**

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This brochure provides information about the qualifications and business practices of Compass Efficient Model Portfolios ("Compass EMP"). If you have any questions about the contents of this brochure, please contact us. 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 Compass EMP is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

3-29-2012

## Material Changes

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### **Annual Update**

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

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### **Material Changes since the Last Update**

The U.S. Securities and Exchange Commission issued a final rule in July 2010 requiring advisers to provide a Firm Brochure in narrative “plain English” format. The new final rule specifies mandatory sections and organization.

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### **Full Brochure Available**

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: 615-620-8600

# Table of Contents

<b>Material Changes.....</b>	<b>i</b>
Annual Update .....	i
Material Changes since the Last Update .....	i
Full Brochure Available .....	i
<b>Advisory Business .....</b>	<b>1</b>
Firm Description.....	1
Principal Owners.....	1
Types of Advisory Services.....	1
Tailored Relationships .....	1
Advisory Service Agreement.....	1
Retainer Agreement.....	2
Investment Management Agreement.....	2
Asset Management.....	2
Termination of Agreement .....	3
<b>Fees and Compensation .....</b>	<b>3</b>
Description .....	3
Fee Billing .....	3
Other Fees .....	3
Expense Ratios.....	4
Past Due Accounts and Termination of Agreement .....	4
<b>Performance-Based Fees .....</b>	<b>4</b>
Sharing of Capital Gains .....	4
<b>Types of Clients.....</b>	<b>4</b>
Description .....	4
Account Minimums.....	4
<b>Methods of Analysis, Investment Strategies and Risk of Loss.....</b>	<b>5</b>
Methods of Analysis.....	5
Investment Strategies .....	5
Risk of Loss .....	5
<b>Disciplinary Information .....</b>	<b>7</b>
Legal and Disciplinary.....	7

<b>Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....</b>	<b>7</b>
Code of Ethics .....	7
Participation or Interest in Client Transactions.....	7
Personal Trading.....	7
<b>Brokerage Practices.....</b>	<b>7</b>
Selecting Brokerage Firms.....	7
Best Execution .....	7
Soft Dollars .....	7
<b>Review of Accounts .....</b>	<b>8</b>
Periodic Reviews .....	8
Review Triggers.....	8
Regular Reports.....	8
<b>Client Referrals and Other Compensation .....</b>	<b>8</b>
Incoming Referrals.....	8
Referrals Out .....	8
<b>Custody .....</b>	<b>9</b>
Account Statements.....	9
Performance Reports.....	9
Net Worth Statements.....	<b>Error! Bookmark not defined.</b>
<b>Investment Discretion.....</b>	<b>9</b>
Discretionary Authority for Trading.....	9
Limited Power of Attorney .....	9
<b>Voting Client Securities .....</b>	<b>9</b>
Proxy Votes .....	9
<b>Financial Information .....</b>	<b>9</b>
Financial Condition .....	9
<b>Business Continuity Plan .....</b>	<b>10</b>
General .....	10
Disasters .....	10
Alternate Offices .....	10
<b>Information Security Program.....</b>	<b>10</b>
Information Security .....	10

Privacy Notice ..... 10

# Advisory Business

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## **Firm Description**

Compass Efficient Model Portfolios ("Compass EMP") was originally founded as a predecessor company in 1996.

Compass EMP provides personalized confidential investment advisory and investment management to individuals, pension and profit sharing plans, trusts, estates, charitable organizations and small businesses. Advice is provided through consultation with the client and may include: determination of financial objectives, identification of financial problems, cash flow management, insurance review, investment management, education funding, retirement planning, and estate planning.

Compass EMP is strictly a fee-only investment advisory and investment management firm. The firm as a practice does not sell commissioned products. The firm is not affiliated with entities that sell financial products or securities. No commissions in any form are accepted. No finder's fees are accepted.

Compass EMP serves as the advisor to the Compass EMP Mutual Funds.

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## **Principal Owners**

The primary owners are David J. Moore, CFP® and Stephen M. Hammers, CIMA, ® who collectively possess an ownership of approximately 70%.

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## **Types of Advisory Services**

Compass EMP provides investment supervisory services, also known as asset management services; manages investment advisory accounts not involving investment supervisory services; furnishes investment advice through consultations; issues special reports about securities; and issues charts, graphs, formulas, or other information which clients may use to evaluate securities.

As of 12/31/2011, Compass EMP managed approximately \$864 million in assets for approximately 270 clients.

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## **Tailored Relationships**

The goals and objectives for each client are documented in our client relationship management system. Investment Suitability Questionnaires are created with clients that reflect the stated goals and objective. Clients may impose restrictions on investing in certain securities or types of securities.

Agreements may not be assigned without client consent.

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## **Advisory Service Agreement**

Most clients choose to have Compass EMP manage their assets in order to obtain investment advice. Realistic and measurable goals are set and

objectives to reach those goals are defined. As goals and objectives change over time, suggestions are made and implemented on an ongoing basis.

The scope of work and fee for an Advisory Service Agreement is provided to the client in writing prior to the start of the relationship. An Advisory Service Agreement includes comprehensive investment management and performance reporting, as well as the implementation of recommendations within each area.

The annual Advisory Service Agreement fee is based on a percentage of the investable assets according to the following schedule:

- 1.00% on the first \$500,000;
- 0.80% on the next \$500,000 (from \$500,001 to \$1,000,000); and
- 0.60% on the assets above \$1,000,000.

Due to grandfathering, current client relationships may exist where the fees are higher or lower than the fee schedule above.

Although the Advisory Service Agreement is an ongoing agreement and constant adjustments are required, the length of service to the client is at the client's discretion. The client or the investment manager may terminate an Agreement by written notice to the other party. At termination, fees will be billed on a pro rata basis for the portion of the quarter completed. The portfolio value at the completion of the prior full billing quarter is used as the basis for the fee computation, adjusted for the number of days during the billing quarter prior to termination.

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### **Retainer Agreement**

Compass EMP does not enter into retainer agreements.

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### **Investment Management Agreement**

An *Investment Management Agreement* may be executed when advisory services is not provided as part of the relationship. The annual fees for an *Investment Management Agreement* is based upon assets to be managed by Compass EMP.

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### **Asset Management**

Assets are invested primarily in no-load or low-load mutual funds and exchange-traded funds, usually through discount brokers or fund companies. Fund companies charge each fund shareholder an investment management fee that is disclosed in the fund prospectus. Discount brokerages may charge a transaction fee for the purchase of some funds.

Stocks and bonds may be purchased or sold through a brokerage account when appropriate. The brokerage firm charges a fee for stock and bond trades. Compass EMP does not receive any compensation, in any form, from fund companies.

Investments may also include: equities (stocks), warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities (variable life insurance, variable annuities, and mutual funds shares), U. S. government securities, options contracts, futures contracts, and interests in partnerships.

Initial public offerings (IPOs) are not available through Compass EMP.

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### **Termination of Agreement**

A Client may terminate any of the aforementioned agreements at any time by notifying Compass EMP in writing and paying the rate for the time spent on the investment advisory engagement prior to notification of termination. If the client made an advance payment, Compass EMP will refund unearned portion of the advance payment upon request.

Compass EMP may terminate any of the aforementioned agreements at any time by notifying the client in writing. If the client made an advance payment, Compass EMP will refund the unearned portion of the advance payment upon request by the client.

## **Fees and Compensation**

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### **Description**

Compass EMP bases its fees on a percentage of assets under management, fixed fees (not including subscription fees), and subscription fees.

Fees are provided in a schedule of disclosed fees.

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### **Fee Billing**

Investment management fees are billed quarterly, in *advance*. Fees are usually deducted from a designated client account to facilitate billing. The client must consent in advance to direct debiting of their investment account.

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### **Other Fees**

Custodians may charge transaction fees on purchases or sales of certain mutual funds, exchange-traded funds, and/or other securities. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security.

Compass EMP, in its sole discretion, may waive its minimum fee and/or charge a lesser investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.).

New Advisory Service Agreement fees are calculated on a formula basis and adjusted for complexity of individual situations. *The formula is based on gross income, gross assets and other financial considerations.*



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**Expense Ratios**

Mutual funds generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 0.50 means that the mutual fund company charges 0.5% for their services. These fees are in addition to the fees paid by you to Compass EMP.

Performance figures quoted by mutual fund companies in various publications are after their fees have been deducted.

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**Past Due Accounts and Termination of Agreement**

Compass EMP reserves the right to stop servicing on any account that does not have the ability to fund the management fee.

Any unused portion of fees collected in advance will be refunded if requested by the client within 30 days of the account termination.

## Performance-Based Fees

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**Sharing of Capital Gains**

Fees are not based on a share of the capital gains or capital appreciation of managed securities.

Compass EMP does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

## Types of Clients

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**Description**

Compass EMP generally provides investment advice to individuals, banks or thrift institutions, investment companies, pension and profit sharing plans, trusts, estates, or charitable organizations, corporations or business entities, or others.

Client relationships vary in scope and length of service.

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**Account Minimums**

The minimum account size for is \$100,000 of assets under management.

For the Compass EMP Institutional Full Access Portfolios, the minimum account size is \$25,000; which consist of single account comprehensive portfolio management

Compass EMP has the discretion to waive the account minimum.

Exceptions may apply to employees of Compass EMP and their relatives, or relatives of existing clients.

Clients with assets below the minimum account size may pay a higher percentage rate on their annual fees than the fees paid by clients with greater assets under management.

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

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### **Methods of Analysis**

Security analysis methods may include charting, fundamental analysis, technical analysis, and cyclical analysis.

The main sources of information include financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, timing services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases.

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### **Investment Strategies**

The primary investment strategy utilizes a multi-asset structure of traditional and multi-weighted asset classes. This means that we use passively-managed index and exchange-traded funds as the core investments, and then add actively-managed funds where there are greater opportunities to make a difference. Portfolios are globally diversified to control the risk associated with traditional markets.

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time. Each client executes an Investment Policy Statement that documents their objectives and their desired investment strategy.

Other strategies may include long-term purchases, short-term purchases, trading, short sales, margin transactions, and option writing (including covered options, uncovered options or spreading strategies).

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### **Risk of Loss**

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular

underlying circumstances. For example, political, economic and social conditions may trigger market events.

- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.
- **Short Sales and Leverage Risk:** Short sales create a risk that the Fund will be required to close the short position by buying the security at a time when the security has appreciated in value, thus resulting in a loss to the Fund. Because a short position loses value as the security's price increases, the maximum loss on a short sale is theoretically unlimited. Short sales involve leverage because the Fund borrows securities and then sells them, effectively leveraging its assets. Assets segregated to cover these transactions may decline in value and are not available to meet redemptions.

## Disciplinary Information

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### Legal and Disciplinary

The firm and its employees have not been involved in legal or disciplinary events related to past or present investment clients.

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

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### Code of Ethics

The employees of Compass EMP have committed to a Code of Ethics. The firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

### Participation or Interest in Client Transactions

Compass EMP and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades. Employees comply with the provisions of the Compass EMP *Compliance Manual*.

### Personal Trading

The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm receive preferential treatment. Since most employee trades are small mutual fund trades or exchange-traded fund trades, the trades have little affect on the securities markets.

## Brokerage Practices

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### Selecting Brokerage Firms

Compass EMP does not have any affiliation with product sales firms. Specific custodian recommendations are made to Clients based on their need for such services. Compass EMP recommends custodians based on the proven integrity and financial responsibility of the firm and the best execution of orders at reasonable commission rates.

### Best Execution

Compass EMP reviews the execution of trades at each custodian each quarter. Trading fees charged by the custodians is also reviewed on a quarterly basis.

### Soft Dollars

Compass EMP receives a software maintenance credit from Charles Schwab & Company because some client assets are custodied at Schwab. This credit

offsets annual maintenance fees for our portfolio management software. All clients benefit from this credit as it reduces the firm's overall expenses.

The selection of Charles Schwab & Company as a custodian for clients is not affected by this nominal credit.

## **Review of Accounts**

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### **Periodic Reviews**

Account reviews are performed quarterly by advisors in the offices of Compass EMP and are led by the Sr. VP of Client Relations. Account reviews are performed more frequently when market conditions dictate.

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### **Review Triggers**

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's own situation.

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### **Regular Reports**

Account reviewers are members of the firm's Investment Committee. They are instructed to consider the client's current security positions and the likelihood that the performance of each security will contribute to the investment objectives of the client.

Clients receive periodic communications on at least an annual basis. The written updates may include a net worth statement, portfolio statement, and a summary of objectives and progress towards meeting those objectives.

## **Client Referrals and Other Compensation**

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### **Incoming Referrals**

Compass EMP has been fortunate to receive many client referrals over the years. The referrals came from current clients, estate planning attorneys, accountants, employees, personal friends of employees and other similar sources. The firm may not compensate referring parties for these referrals. Typically Compass EMP will only pay for referrals through the Compass EMP Full Turnkey Asset Allocation Program.

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### **Referrals Out**

Compass EMP does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred out to another professional.

## Custody

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### Account Statements

All assets are held at qualified custodians, which mean the custodians provide account statements directly to clients at their address of record at least quarterly. Clients are instructed to notify Compass EMP if they do not receive their custodian statements at least quarterly.

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### Performance Reports

Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided by Compass EMP.

## Investment Discretion

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### Discretionary Authority for Trading

Compass EMP accepts discretionary authority to manage securities accounts on behalf of clients. Compass EMP has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. However, if a blanket trading authorization has not been given, Compass EMP consults with the client prior to each trade to obtain concurrence.

Discretionary trading authority facilitates placing trades in clients' accounts on the client's behalf so that Compass EMP may promptly implement the investment policy that the client has approved in writing.

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### Limited Power of Attorney

A limited power of attorney is a trading authorization for this purpose. You sign a limited power of attorney so that we may execute the trades that you have approved.

## Voting Client Securities

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### Proxy Votes

Compass EMP does not vote proxies on securities. Clients are expected to vote their own proxies.

## Financial Information

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### Financial Condition

Compass EMP does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because Compass EMP does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than \$1,200 per client, and six months or more in advance.

## **Business Continuity Plan**

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### **General**

Compass EMP has a Business Continuity Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications, services or key people.

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### **Disasters**

The Business Continuity Plan covers natural disasters such as snow storms, hurricanes, tornados, and flooding. The Plan covers man-made disasters such as loss of electrical power, loss of water pressure, fire, bomb threat, nuclear emergency, chemical event, biological event, T-1 communications line outage, Internet outage, railway accident and aircraft accident. Electronic files are backed up daily and archived offsite.

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### **Alternate Offices**

Alternate offices are identified to support ongoing operations in the event the main office is unavailable. It is our intention to contact all clients within five days of a disaster that dictates moving our office to an alternate location.

## **Information Security Program**

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### **Information Security**

Compass EMP maintains an information security program to reduce the risk that your personal and confidential information may be breached.

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### **Privacy Notice**

Compass EMP respects your privacy and understands that it is important to you; Compass Efficient Model Portfolios, LLC ("Compass EMP") is committed to protecting it. In establishing an advisory account with Compass EMP, it is necessary that you provide Compass EMP with certain personal financial information to manage your account in a manner consistent with your investment objectives and personal financial goals.

#### **Types of Nonpublic Personal Information We Collect**

Compass EMP may collect nonpublic personal information about you in the following ways:

- Provided by you from your applications or other account and Compass EMP forms

- Obtained with your authorization from your securities transactions with Compass EMP, or other advisers and broker/dealers, which may be providing financial services to you.

This information collected includes:

- Social Security number and other identification information
- Transaction history
- Income, assets and liabilities

### **Parties to Whom We Disclose Information**

It is the policy of Compass EMP that we do not disclose any nonpublic personal information about our clients or former clients to unaffiliated third parties, except as permitted by law. When necessary to provide all of the services you request for your account, Compass EMP may provide nonpublic personal information about you to certain third parties, such as clearing firms that serve or may serve as the custodian of your account, or that may effect securities transactions on your behalf, or insurance companies. Such disclosure is only made to fulfill our duties to you in fully servicing your account. Under no circumstances do we sell your name or other information to anyone.

**For our affiliates, in the course of everyday business; it may be necessary for Compass EMP to share** information about your transactions and experiences.

### **Protecting the Confidentiality and Security of Clients' Information**

Compass EMP retains records relating to professional services that we provide so that we are better able to assist you with your needs. Compass EMP restricts access to your personal and account information to those employees who need to know that information to provide products or services to you. Compass EMP maintains physical, electronic, and procedural safeguards to guard your non-public personal information. If you decide to close your account(s) with Compass EMP or become an inactive customer, Compass EMP will adhere to the privacy policies and practices as described in this notice.

If you have any questions regarding our Privacy Policy, please call our Chief Compliance Officer at 615.661.9622.